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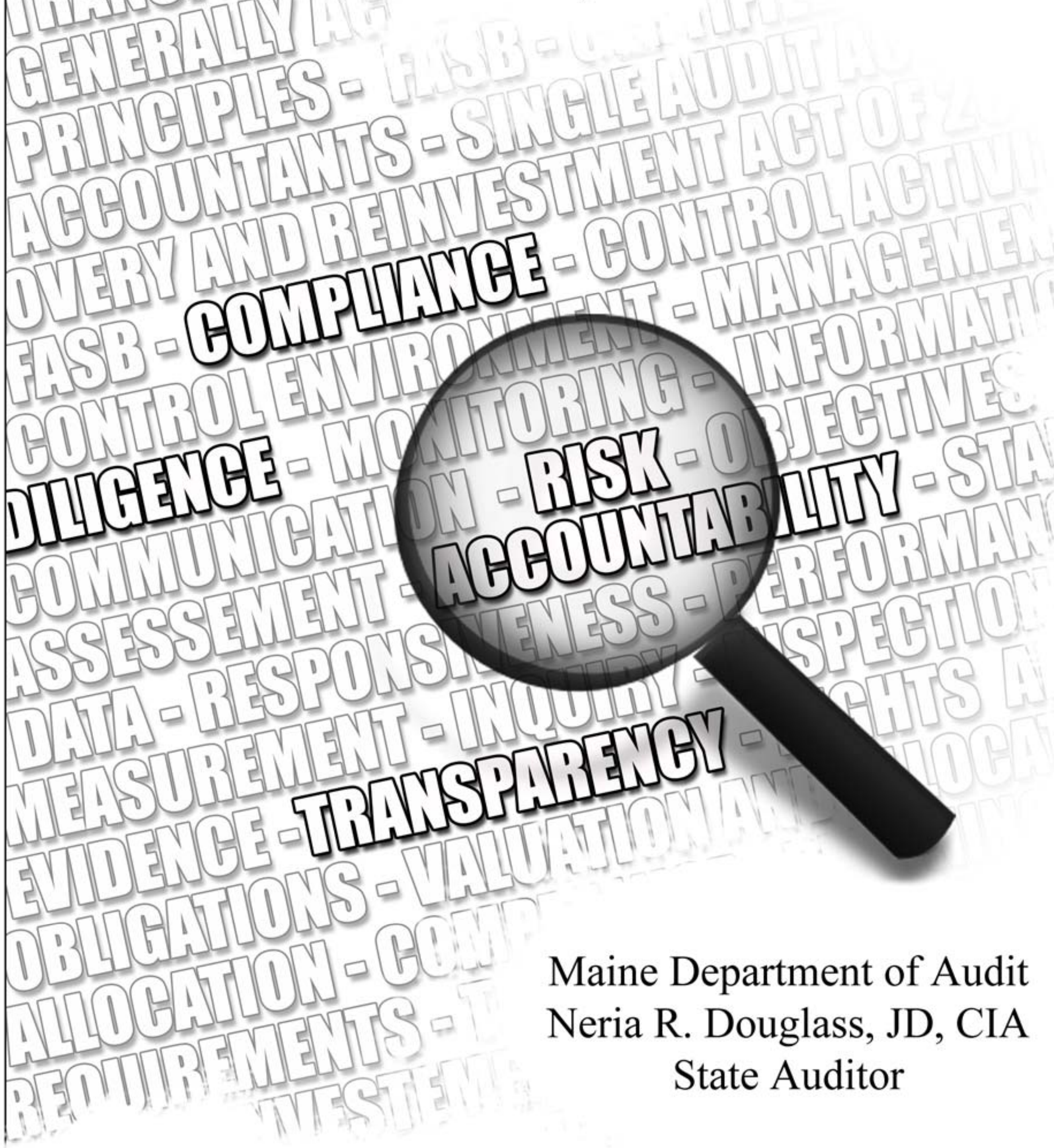
Single Audit Report Fiscal Year Ended June 30, 2011

Maine State Auditor's Office

State of Maine

Single Audit Report

Fiscal Year Ending
June 30, 2011



Maine Department of Audit
Neria R. Douglass, JD, CIA
State Auditor

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2011

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DIRIGO
MAINE

NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
MARY GINGROW-SHAW, CPA
DEPUTY, SINGLE AUDIT
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDIT AND ADMINISTRATION

Letter of Transmittal

Senator Kevin L. Raye
President of the Senate

Representative Robert W. Nutting
Speaker of the House of Representatives

The Honorable Paul R. LePage
Governor of Maine

I am pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2011. This audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Our audit complies with 5 MRSA §243 and is a prerequisite for the receipt of federal financial assistance, which was $3.6 billion during fiscal year 2011.

This document contains the following reports and schedules:

- Independent Auditor's Report
- Basic Financial Statements, Management's Discussion and Analysis, Notes to Financial Statements, and Required Supplementary Information
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards
- Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Financial Statement Findings
- Indexes to Federal Program Findings
- Federal Findings, Questioned Costs and Corrective Action Plan
- Summary Schedule of Prior Audit Findings

On behalf of the Maine Department of Audit, I thank employees throughout Maine government who have assisted us during our audit. I know that we all work to improve financial reporting and accountability for our citizens and our State.

Please contact me if you have questions or comments about the 2011 Single Audit of the State of Maine.

Respectfully submitted,

Neria R. Douglass, JD, CIA
State Auditor

March 30, 2012

STATE OF MAINE
EXECUTIVE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2011

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2011

EXECUTIVE SUMMARY

The Department of Audit performs an annual financial and compliance audit, the Single Audit of the State of Maine, in order to comply with federal and State requirements. Our audit included 24 major federal programs representing 92% of the $3.6 billion in federal assistance that the State received. The Single Audit Report consists of various audit reports along with related financial statement and federal audit findings and recommendations.

Independent Auditor's Report

We rendered an unqualified opinion on the State's basic financial statements which means that the financial report is presented fairly in all material respects in accordance with generally accepted accounting principles.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

We reported on internal control over financial reporting and did not identify any deficiencies in internal control that we considered to be material weaknesses. A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees to prevent, or detect and correct financial statement misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies such that there is a reasonable possibility that a material misstatement of the State's financial statements would not be prevented, or detected and corrected on a timely basis.

As part of obtaining reasonable assurance about whether the State's financial statements were not materially misstated, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The results of our tests disclosed no instances of noncompliance that were required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance with program requirements

We issued three audit findings that resulted in qualifications of our opinions on compliance with program requirements for five federal programs because of material noncompliance. The remaining 19 federal programs complied in all material respects with program requirements.

Internal control over compliance

We identified 49 deficiencies in internal control over compliance. A *deficiency* exists when the operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program, on a timely basis.

Forty-five deficiencies were considered to be *significant deficiencies* in internal control over compliance. A *significant deficiency* exists when there is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Four deficiencies were considered to be *material weaknesses* in internal control. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs includes the audit findings and managements' responses and plans for corrective action for addressing the audit findings. The audit findings also include a total of $289 thousand of *questioned costs* and eight other audit findings for which the *questioned costs* could not be determined. *Questioned costs* are amounts of federal financial assistance that we believe were not spent in accordance with program requirements. The federal government may or may not disallow these costs and could result in reimbursements from the State to the federal government.

STATE OF MAINE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

INDEX TO FINANCIAL INFORMATION

General Purpose Financial Statements of the State of Maine
For the Year Ended June 30, 2011

STATE OF MAINE
DEPARTMENT OF AUDIT

66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR

MARY GINGROW-SHAW, CPA
SINGLE AUDIT COORDINATOR

MICHAEL J. POULIN, CIA
DIRECTOR OF AUDIT and ADMINISTRATION

INDEPENDENT AUDITOR'S REPORT

To the President of the Senate and the
Speaker of the House of Representatives

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2011, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, ConnectME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and University of Maine System. We also did not audit the financial statements of the NextGen College Investing Plan. These financial statements reflect the following percentages of total assets and net assets or fund balance of the indicated opinion unit:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Net Assets/Fund Balance
Aggregate Discretely Presented Component Units	100%	100%
Aggregate Remaining Fund Information	94%	96%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinions, insofar as they relate to the amounts included for these entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 3, the State has adopted the provisions of Government Accounting Standards Board (GASB) *Statement No. 54 – Fund Balance Reporting and Governmental Fund Definitions.*

The Management's Discussion and Analysis on pages B5 – B16, and budgetary comparison schedules and related notes, State Retirement Plan and Other Post-Employment Benefits Plans, Information About Infrastructure Assets Reported Using the Modified Approach, included on pages B96 – B106, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

December 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of Maine's annual financial report presents the State's discussion and analysis of financial performance during the year ended June 30, 2011. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net assets increased by 6.7 percent from the previous fiscal year. Net assets of Governmental Activities increased by $235.5 million, while net assets of Business-type Activities increased by $56.7 million. The State's assets exceeded its liabilities by $4.7 billion at the close of fiscal year 2011. Component units reported net assets of $2.3 billion, an increase of $206.6 million (9.7 percent) from the previous year.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $328.8 million, an increase of $17.0 million from the previous year. The General Fund's total fund balance was a negative $236.4 million, an improvement of $71.9 million from the previous year. The Highway Fund total fund balance was $31.8 million, a decline of $24.6 million from the prior year.

- The proprietary funds reported net assets at year end of $634.6 million, an increase of $72.6 million from the previous year. This increase is due to several factors: an increase in the Dirigo Health Fund of $19.5 million, an increase in the Transit, Aviation & Rail Transportation Fund of $49.7 million, an increase in the Alcoholic Beverages Fund of $12.5 million, and an increase in the Information Services Fund of $11.1 million, offset by a decrease in the Employment Security Fund of $20.4 million.

Long-term Debt:

- The State's liability for general obligation bonds increased by $20.1 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $108.1 million in bonds and made principal payments of $88.0 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 7.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State of Maine's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Change in Accounting Principles

The State implemented Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fiscal year 2010 Condensed Statement of Net Assets has been restated to reflect related changes for comparison purposes.

Government-wide Statements

The government-wide statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets are an indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both government-wide statements report three activities:

Governmental activities - Most basic services, such as health & human services, education, governmental support & operations, justice & protection, and transportation are included in this category. The Legislature, Judiciary and the general operations of the Executive departments fall within the Governmental Activities. Income taxes, sales and use taxes, and State and federal grants finance most of these activities.

Business-type activities - The State charges fees to customers to help cover all or most of the costs of certain services it provides. Operating costs not covered by customer fees are subsidized by the General Fund. Lottery tickets, transportation services, and the State's unemployment compensation services are examples of business-type activities.

Component units - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" one component unit, the Maine Governmental Facilities Authority (MGFA) with Governmental Activities as described above. Maine reports 18 other component units (6 major and 12 non-major) as discretely presented component units of the State, and one component unit is reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

Government-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting. The following summarizes the impact of the transition from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements but are included on government-wide statements

- Certain tax revenues that are earned, but not available, are reported as revenues in the Governmental Activities, but are reported as deferred revenue on the governmental fund statements

- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements

- Internal service funds are reported as Governmental Activities, but reported as proprietary funds in the fund financial statements

- Governmental fund long-term liabilities, such as certificates of participation, pension obligations, compensated absences, bonds and notes payable, and others appear as liabilities only in the government-wide statements

- Capital outlay spending results in capital assets on the government-wide statements, but is recorded as expenditures on the governmental fund statements

- Proceeds from bonds, notes and other long-term financing arrangements result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements

- Net asset balances are allocated as follows:

  Net Assets Invested in Capital Assets, Net of Related Debt; are capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction or improvement of those assets.

  Restricted Net Assets are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation; and

  Unrestricted Net Assets are net assets that do not meet any of the above restrictions.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds. Funds are fiscal and accounting entities with self-balancing sets of accounts that the State uses to keep track of specific revenue sources and spending for particular purposes. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different measurement focuses and bases of accounting.

Governmental funds: Most of the basic services are included in governmental funds, which generally focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the State. The governmental fund statements focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. These funds are reported using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Because this information does not encompass the additional long-term focus of the government-wide statements, a separate reconciliation provides additional information that explains the relationship (or differences) between them. The governmental funds consist of the General Fund, special revenue, capital projects, and permanent funds.

Proprietary funds: When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) apply the accrual basis of accounting utilized by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services to the State's other programs and activities – such as the State's Postal, Printing & Supply Fund. Internal service funds are reported as Governmental Activities on the government-wide statements.

Fiduciary funds: The State is the trustee or fiduciary for assets that belong to others. The State is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These funds include pension and other employee benefit trusts administered by the Maine Public Employees Retirement System, a component unit, private-purpose trusts, and agency funds. Fiduciary funds are reported using the accrual basis of accounting. The State excludes these activities from the government-wide financial statements because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the government-wide and fund financial statements.

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the General Fund and major special revenue funds. Also included are notes and a reconciliation of fund balance from the budgetary basis to fund balance determined according to generally accepted accounting principles. This section also includes schedules of funding progress for certain pension and other post-employment benefit trust funds and condition and maintenance data regarding certain portions of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements. Budgetary comparison schedules by agency are also included for the general fund, the highway fund, federal funds, and other special revenue fund.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by 6.7 percent to $4.7 billion at June 30, 2011, as detailed in Tables A-1 and A-2.

Table A- 1: Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other noncurrent assets	$ 1,910,362	$ 1,891,198	$ 353,854	$ 361,077	$ 2,264,216	$ 2,252,275
Capital assets	4,861,678	4,618,143	146,357	97,635	5,008,035	4,715,778
Total Assets	**6,772,040**	**6,509,341**	**500,211**	**458,712**	**7,272,251**	**6,968,053**
Current liabilities	1,303,421	1,348,020	32,967	37,184	1,336,388	1,385,204
Long-term liabilities	1,240,167	1,168,334	27,223	38,255	1,267,390	1,206,589
Total Liabilities	**2,543,588**	**2,516,354**	**60,190**	**75,439**	**2,603,778**	**2,591,793**
Net assets (deficit):						
Investment in capital net of related debt	4,165,151	3,945,220	146,357	97,635	4,311,508	4,042,855
Restricted	496,215	535,173 *	300,287	320,648	796,502	855,821 *
Unrestricted (deficit)	(432,914)	(487,406) *	(6,623)	(35,010)	(439,537)	(522,416) *
Total Net Assets	**$ 4,228,452**	**$3,992,987**	**$ 440,021**	**$ 383,273**	**$ 4,668,473**	**$4,376,260**

* As Restated

Changes in Net Assets

The State's fiscal year 2011 revenues totaled $8.0 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 43.0 percent and 42.1 percent,

respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $7.7 billion for the year 2011. (See Table A-2) These expenses are predominantly (68.2 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 5.9 percent of total costs. Total net assets increased by $292.2 million.

Table A-2 - Changes in Net Assets
(Expressed in Thousands)

	Governmental Activities			Business-type Activities		Total Primary Government	
	2011	**2010**		**2011**	**2010**	**2011**	**2010**
Revenues							
Program Revenues:							
Charges for Services	$ 488,644	$ 492,251		$ 535,349	$ 489,034	$ 1,023,993	$ 981,285
Operating Grants/Contributions	3,355,823	3,525,858		11,253	44,629	3,367,076	3,570,487
General Revenues:							
Taxes	3,435,859	3,193,659		-	-	3,435,859	3,193,659
Other	172,622	156,515		-	-	172,622	156,515
Total Revenues	7,452,948	7,368,283		546,602	533,663	7,999,550	7,901,946
Expenses							
Governmental Activities:							
Governmental Support	448,917	445,972	*			448,917	445,972
Education	1,706,305	1,752,041				1,706,305	1,752,041
Health & Human Services	3,522,341	3,511,572				3,522,341	3,511,572
Justice & Protection	415,450	412,263				415,450	412,263
Transportation Safety	371,374	327,536	*			371,374	327,536
Other	659,947	682,950				659,947	682,950
Interest	43,202	48,594				43,202	48,594
Business-Type Activities:							
Employment Security				203,693	235,301	203,693	235,301
Lottery				167,956	166,721	167,956	166,721
Military Equip. Maint.				44,765	45,004	44,765	45,004
Dirigo Health				47,980	50,952	47,980	50,952
Other				31,390	28,740	31,390	28,740
Total Expenses	7,167,536	7,180,928		495,784	526,718	7,663,320	7,707,646
Excess (Deficiency) before Special Items and Transfers	285,412	187,355		50,818	6,945	336,230	194,300
Special Items	(36,931)	(11,728)		(7,086)	-	(44,017)	(11,728)
Transfers	(13,016)	37,279		13,016	(37,279)	-	-
Increase (Decrease) in Net Assets	235,465	212,906		56,748	(30,334)	292,213	182,572
Net Assets, beginning of year	3,992,987	3,780,081		383,273	413,607	4,376,260	4,193,688
Ending Net Assets	$ 4,228,452	$ 3,992,987		$ 440,021	$ 383,273	$ 4,668,473	$ 4,376,260

* As reclassified

Governmental Activities

Revenues for the State's Governmental Activities totaled $7.5 billion while total expenses equaled $7.2 billion. The increase in net assets for Governmental Activities was $235.5 million in 2011, resulting mainly from an increase in the State’s investment in capital assets such as land, buildings, and infrastructure. Additionally, program revenues were insufficient to cover program expenses. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes. Tax revenue increased by $242.2 million from the prior year; however, net expenses supported by tax revenue also increased by approximately $160.3 million. Furthermore, the State’s Business-type Activities transferred $48.5 million (net) to the Governmental Activities, which included statutorily required profit transfers. However, offsetting these profit transfers were contributions totaling $61.6 million from the Governmental Activities to purchase capital assets that are recorded in the Business-type activities.

The users of the State's programs financed $488.6 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $3.4 billion. $3.6 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

Table A-3: Total Sources of Revenues for Governmental Activities for Fiscal Year 2011

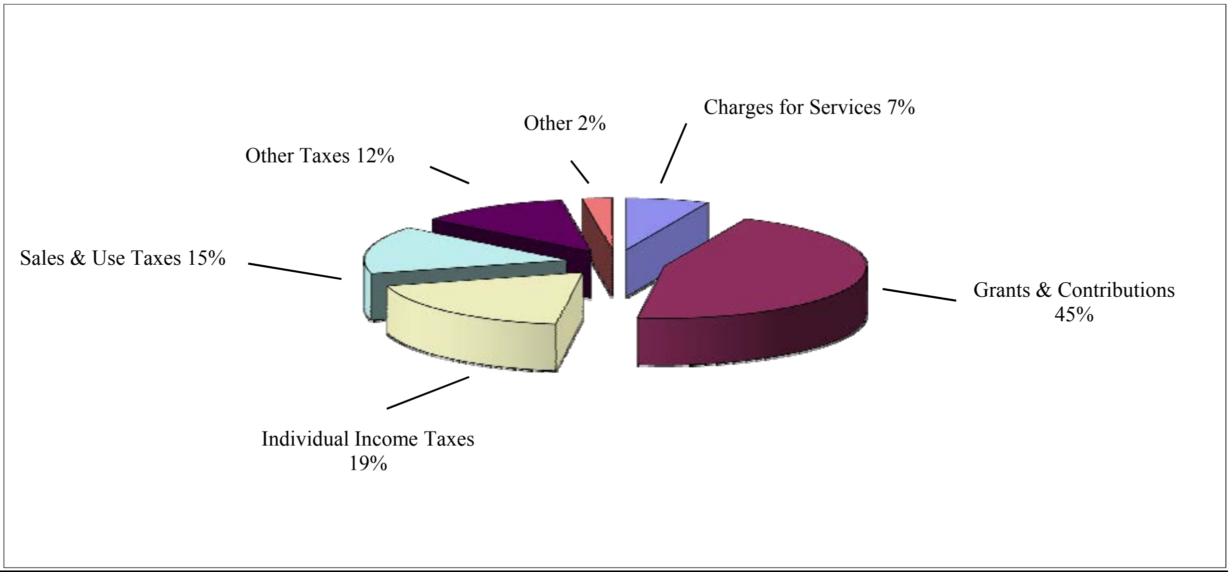
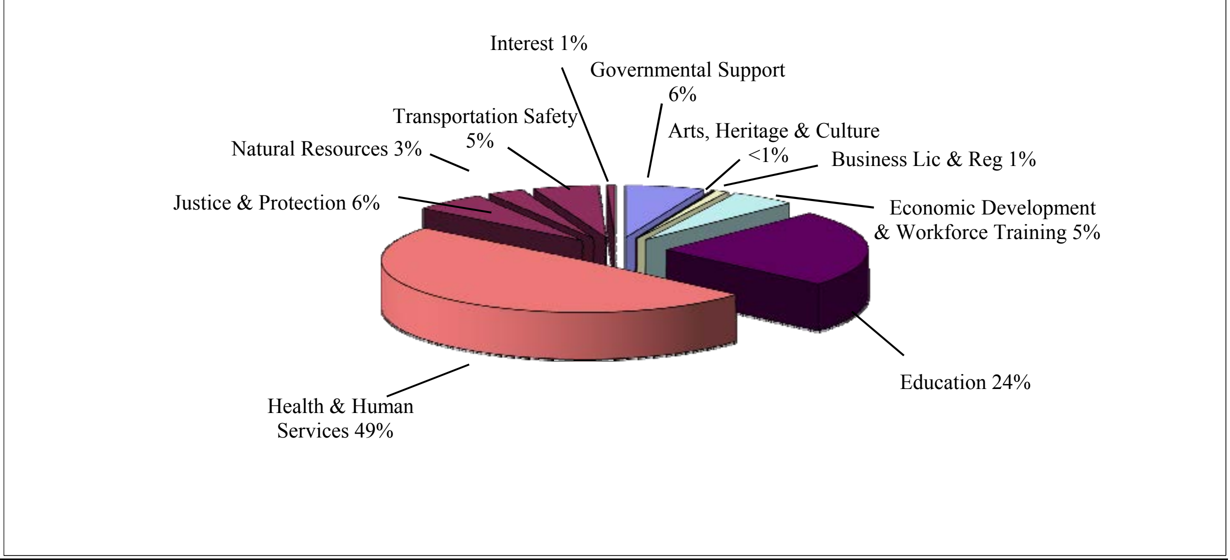


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2011



Business-type Activities

Revenues for the State's Business-type Activities totaled $546.6 million while expenses totaled $495.8 million. The increase in net assets for Business-type Activities was $56.7 million in 2011, due mainly to the contribution from the State's Governmental Activities to purchase capital assets recorded in the Transit, Aviation and Rail Transportation Fund.

Table A-5 presents the cost of State Business-type Activities: employment security, alcoholic beverages, lottery, military equipment maintenance, Dirigo Health and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the State's taxpayers by each of these functions.

Table A-5: Net Cost of Business-Type Activities
(Expressed in Thousands)

Category	Total Cost 2011	Total Cost 2010	Net (Cost) Revenue 2011	Net (Cost) Revenue 2010
Employment Security	$ 203,693	$ 235,301	$ (19,024)	$ (63,234)
Alcoholic Beverages	-	1	12,533	12,527
Lottery	167,956	166,721	50,125	53,245
Military Equip. Maint.	44,765	45,004	(2,292)	4,483
Dirigo Health	47,980	50,952	23,416	14,657
Other	31,390	28,739	(13,940)	(14,733)
Total	$ 495,784	$ 526,718	$ 50,818	$ 6,945

The cost of all Business-type Activities this year was $495.8 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $50.8 million, with the Lottery making up $50.1 million of the total. The State's Business-type Activities transferred $48.5 million (net) to the Governmental Activities, which included statutorily required profit transfers. Additionally, the Governmental Activities contributed $61.6 million to purchase capital assets that are recorded in the Business-type activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

Table A-6: Governmental Fund Balances
(Expressed in Thousands)

Fund	2011	2010	Change
General	$ (236,369)	$ (308,248)	$ 71,879
Highway	31,792	56,403	(24,611)
Federal	24,419	22,082	2,337
Other Special Revenue	399,792	442,482	(42,690)
Other Governmental	109,134	99,052	10,082
Total	$ 328,768	$ 311,771	$ 16,997

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $328.8 million, an increase of $17.0 million in comparison with the prior year. Of this total amount, $20.3 million (6.2 percent) is classified as non-spendable, either due to its form or legal constraints, and $496.4 million (151.0 percent) is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. Unspent bond proceeds, revenue restricted for transportation, natural resources or other programs are included in restricted fund balance. An additional $38.4 million or 11.7 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional $17.1 million or 5.2 percent of total fund balance has been assigned to specific purposes, as expressed by government's intent. At the end of the current fiscal year, the unassigned fund balance of the General Fund was a deficit of $243.6 million, an improvement of $71.9 million.

General Fund revenues and other sources surpassed General Fund expenditures and other uses resulting in an increase in the fund balance by $71.9 million. While expenditures and other uses of the General Fund increased by approximately $79.5 million (2.5 percent) led by an increase in expenditures for health and human service of $174.2 million, transfers to other funds and expenditures for education decreased by $38.5 million and $30.5 million respectively; General Fund revenues and other sources also increased by $186.2 million (6.0 percent) which is mainly attributed to an increase in tax revenue ($170.5 million).

The fund balance of the Highway Fund decreased $24.6 million from fiscal year 2010, due mainly to an increase in the transportation, safety and development expenditures by approximately $33.4 million (as reclassified) offset by the Highway Fund's reimbursement of approximately $8.3 million from the Federal Fund for prior period expenditures that were ultimately approved for federal funding.

Budgetary Highlights

For the 2011 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $2.9 billion, an increase of about $191 million from the original legally adopted budget of approximately $2.7 billion. Actual expenditures on a budgetary basis amounted to approximately $76.2 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2012, including the budgeted starting balance for Fiscal Year 2011, there were funds remaining of $82 million to distribute in Fiscal Year 2011. Actual revenues exceeded final budget forecasts by $17.5 million. As a part of the final budget adjustment for Fiscal Year 2011, the Legislature approved direct transfers to the State's Budget Stabilization Fund in the amount of $35.8 million. In addition, the year-end cascade transferred another $10.3 million to the State's Budget Stabilization Fund. The additional transfer and interest earnings increased the

balance in the Fund to $71.4 million as of June 30, 2011. This item is further explained in Note 2 of Notes to the Financial Statements. The year-end cascade also transferred $5.9 million to the Operating Capital Fund, increasing the balance in that fund to $17.1 million as of June 30, 2011.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2011, the State had roughly $5.0 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2011, the State acquired or constructed more than $346.5 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

Table A-7 - Capital Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	$ 488,197	$ 473,464	$ 58,888	$ 43,076	$ 547,085	$ 516,540
Buildings	592,943	589,375	9,449	8,465	602,392	597,840
Equipment	254,392	254,744	67,037	49,548	321,429	304,292
Improvements	19,602	19,576	63,342	74,572	82,944	94,148
Infrastructure	3,814,466	3,600,246	-	-	3,814,466	3,600,246
Construction in Progress	119,419	90,974	32,024	8,789	151,443	99,763
Total Capital Assets	5,289,019	5,028,379	230,740	184,450	5,519,759	5,212,829
Accumulated Depreciation	427,341	410,236	84,383	86,815	511,724	497,051
Capital Assets, net	$ 4,861,678	$ 4,618,143	$ 146,357	$ 97,635	$ 5,008,035	$ 4,715,778

Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets – highways and bridges. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Utilization of this approach requires the State to: 1) maintain an asset management system that includes an up-to-date inventory of infrastructure assets; 2) perform condition assessments that use a measurement scale and document that the infrastructure assets are being preserved at or above the condition level established; and 3) estimate the annual amounts that must be expended to preserve and maintain the infrastructure at the condition level established by the State. As long as the State meets these requirements, any additions or improvements to infrastructure are capitalized and all other maintenance and preservation costs are expensed.

Highways and bridges are included in the State’s infrastructure. There are 8,807 highway miles or 17,921 lane miles within the State. Bridges have a deck area of 11.7 million square feet among 2,960 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2011, the actual average condition was 74.8. Its policy for bridges is an average sufficiency rating condition assessment of

60. The actual average condition for bridges was 78 at June 30, 2011. Preservation costs for fiscal year 2011 totaled $110.7 million compared to estimated preservation costs of $94.0 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 414, PL 2009, $25 million in Highway fund bonds and $5 million in General fund bonds was spent during FY2011. Of the amount authorized by Chapter 645, PL 2009, $10 million was spent during FY2011.

Additional information on infrastructure assets can be found in Required Supplementary Information (RSI).

Long-Term Debt

The State Constitution authorizes general obligation long-term borrowing, with 2/3 approval of the Legislature and ratification by a majority of the voters, and general obligation short-term notes, of which the principal may not exceed an amount greater than 10 percent of all moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, or greater than 1 percent of the total valuation of the State of Maine, whichever is the lesser.

At year-end, the State had $1.4 billion in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

Table A-8 - Outstanding Long-Term Debt
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	$ 520,230	$ 500,100	$ -	$ -	$ 520,230	$ 500,100
Other Long-Term Obligations	910,156	836,743	2,283	808	912,439	837,551
Total	$ 1,430,386	$ 1,336,843	$ 2,283	$ 808	$ 1,432,669	$ 1,337,651

During the year, the State reduced outstanding long-term obligations by $88.0 million for outstanding general obligation bonds and $689.7 million for other long-term debt. Also during fiscal year 2011, the State incurred $872.7 million of additional long-term obligations.

Credit Ratings

The State's credit was rated during fiscal year 2011 by Moody's Investors Service as Aa2 with a stable outlook and by Standard & Poor's as AA with a negative outlook.

FACTORS BEARING ON THE FUTURE OF STATE AND NEXT YEAR'S BUDGETS

National and state economic conditions have shown little to no improvement over recent months. Maine's economic activity index shows weak growth and remains well below pre-recession levels. Nationwide, consumer sentiment and small business optimism have both declined over the course of the year. According to the U.S. Bureau of Economic Analysis, personal income in Maine was 3.9 percent higher in the second quarter of 2011 than it was in the second quarter of 2010. After rising on a quarter-over-quarter basis for three straight quarters, the price of a barrel of oil fell 12.5 percent in the third quarter of 2011. Since the end of the homebuyer tax credit in May 2010, home sales in Maine and the U.S. have fallen on a year-over-year basis in three of the last four quarters and are just slightly above the bottom reached in early 2009. After hitting bottom in February 2011, housing permits in Maine inched up to about where they were in January 2009. Home prices in the Portland metropolitan area increased 1.0 percent year-over-year in the second quarter of 2011. Foreclosure starts and mortgage delinquencies remain well above pre-recession levels but below peak crisis levels.

The November 2011 economic forecast continues to see little progress in the national and state economic recovery through 2012, partly due to the European debt crisis and the expected recession in the euro zone. The revised forecast lowers the expectations for wage and salary employment growth through 2014. Personal income growth was generally revised downward for the near term. After an upward revision in growth in the Consumer Price Index (CPI) for 2011, the November forecast made a large downward revision for 2012, a slight downward revision in 2013 and no changes for 2014-2015. The downward revision for CPI growth in 2012 and 2013 are due to reduced expectations for global economic demand growth and the relatively high prices for food and energy seen in 2010 and 2011.

The unemployment rate in Maine has been below the national average throughout the recession and during the early stages of the economic recovery. The rate in Maine stood at 7.3 percent in October, which is below both the national and New England averages. Maine is forecasted to return to its pre-recession wage and salary employment level after 2015.

After falling for two straight years, General Fund revenue increased by 6.9 percent in FY11. Growth is projected to be well below that rate in fiscal years 2012-2014 because of significant tax reductions enacted by the Legislature during the last legislative session. Revenue growth is projected to return to a more moderate pace of 4.1 percent in fiscal year 2015 once the tax cuts are fully implemented.

At June 30, 2011, the deficit in the State of Maine's Unassigned Fund Balance Account in the General Fund has decreased to $243.6 million (from a deficit unassigned balance of $312.7 for fiscal year 2010). This decrease is primarily due the State not using a one-day borrowing from the Other Special Revenue Fund to balance the budget which totaled $79 million in fiscal year 2010.

There are several factors that adversely affect our General Fund Balance Sheet that we should strive to improve over the next several years. One cause for the current condition is the Medicaid liabilities that accrue at the end of each fiscal year. Other factors that have a significant impact on the State's Financial Statements compiled and issued in accordance with Generally Accepted Accounting Principles as applicable to governments include such factors as accruing tax revenues for budgetary purposes and for financial statement purposes without accruing the offsetting liabilities for budgetary purposes; the increase in the demand for carrying accounts and a lack of allowing money to accrue to the Unassigned Fund Balance of the General Fund.

These items together, conspire to cause the State of Maine's General Fund to be subjected to lack of liquidity each year and an inability to adequately manage its Balance Sheet within existing resources.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the finances of the State and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

State of Maine
Office of the State Controller
14 State House Station
Augusta, ME 04333-0014
(207)-626-8420
financialreporting@maine.gov


DIRIGO
MAINE

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2011
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 313,188	$ 18,228	$ 331,416	$ 86,244
Cash and Cash Equivalents	282	2,166	2,448	107,457
Cash with Fiscal Agent	144,748	-	144,748	-
Investments	78,256	-	78,256	642,769
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	27,319	-	27,319	-
Restricted Deposits and Investments	3,971	265,354	269,325	21,650
Inventories	5,582	2,387	7,969	2,110
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	371,925	-	371,925	-
Loans Receivable	4,933	-	4,933	94,729
Notes Receivable	-	-	-	960
Other Receivables	211,761	60,906	272,667	79,179
Internal Balances	2,169	(2,169)	-	-
Due from Other Governments	494,762	-	494,762	157,835
Due from Primary Government	-	-	-	16,641
Loans receivable from primary government	-	-	-	21,276
Due from Component Units	40,583	-	40,583	-
Other Current Assets	4,802	2,201	7,003	40,671
Total Current Assets	1,704,281	349,073	2,053,354	1,271,521
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	81,896	4,781	86,677	22,628
Assets Held in Trust	-	-	-	5
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	7,168	-	7,168	-
Restricted Deposits and Investments	-	-	-	520,222
Investments	-	-	-	471,620
Receivables, Net of Current Portion:				
Taxes Receivable	93,067	-	93,067	-
Loans Receivable	-	-	-	2,648,029
Notes Receivable	-	-	-	70,402
Other Receivables	752	-	752	12,964
Due from Other Governments	22,898	-	22,898	1,446,450
Loans receivable from primary government	-	-	-	269,643
Due From Primary Government	-	-	-	1,855
Other Noncurrent Assets	-	-	-	33,281
Post-Employment Benefit Asset	300	-	300	9,326
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	4,422,082	90,912	4,512,994	90,234
Buildings, Equipment and Other Depreciable Assets	866,937	139,828	1,006,765	1,289,315
Less: Accumulated Depreciation	(427,341)	(84,383)	(511,724)	(480,168)
Capital Assets, Net of Accumulated Depreciation	4,861,678	146,357	5,008,035	899,381
Total Noncurrent Assets	5,067,759	151,138	5,218,897	6,405,806
Total Assets	$ 6,772,040	$ 500,211	$ 7,272,251	$ 7,677,327

The accompanying notes are an integral part of the financial statements.

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Liabilities				
Current Liabilities:				
Accounts Payable	$ 766,785	$ 3,637	$ 770,422	$ 92,750
Accrued Payroll	40,616	1,084	41,700	1,016
Tax Refunds Payable	159,964	-	159,964	-
Due to Component Units	22,593	-	22,593	-
Due to Primary Government	-	-	-	40,583
Undistributed Grants and Administrative Funds	-	-	-	13,804
Allowances for Losses on Insured Commercial Loans	-	-	-	14,979
Current Portion of Long-Term Obligations:				
Compensated Absences	4,545	59	4,604	2,514
Due to Other Governments	97,722	-	97,722	2,700
Amounts Held under State & Federal Loan Programs	-	-	-	30,208
Claims Payable	27,006	-	27,006	-
Bonds and Notes Payable	97,440	-	97,440	157,283
Notes Payable	-	-	-	572
Revenue Bonds Payable	17,285	-	17,285	52,442
Obligations under Capital Leases	5,881	-	5,881	1,946
Certificates of Participation and Other Financing Arrangements	25,541	-	25,541	-
Loans Payable to Component Unit	21,276	-	21,276	-
Accrued Interest Payable	7,149	-	7,149	48,562
Deferred Revenue	1,250	12,799	14,049	62,716
Other Current Liabilities	8,368	15,388	23,756	39,008
Total Current Liabilities	1,303,421	32,967	1,336,388	561,083
Long-Term Liabilities:				
Compensated Absences	41,898	823	42,721	-
Due to Component Units	1,742	-	1,742	-
Due to Other Governments	3	-	3	8,904
Amounts Held under State & Federal Loan Programs	-	-	-	48,760
Claims Payable	35,863	-	35,863	-
Bonds and Notes Payable	422,790	-	422,790	3,274,908
Notes Payable	-	-	-	25,783
Revenue Bonds Payable	154,865	-	154,865	1,289,104
Obligations under Capital Leases	27,809	-	27,809	6,224
Certificates of Participation and Other Financing Arrangements	46,289	-	46,289	-
Loans Payable to Component Unit	269,643	-	269,643	-
Deferred Revenue	7,010	25,000	32,010	18,523
Pension Obligation	2,028	-	2,028	-
Other Post-Employment Benefit Obligation	190,622	1,400	192,022	-
Pollution Remediation	39,605	-	39,605	-
Other Noncurrent Liabilities	-	-	-	100,093
Total Long-Term Liabilities	1,240,167	27,223	1,267,390	4,772,299
Total Liabilities	2,543,588	60,190	2,603,778	5,333,382
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,165,151	146,357	4,311,508	675,358
Restricted:				
Transportation Purposes	176,140	-	176,140	-
Business Licensing & Regulation	44,245	-	44,245	-
Justice and Protection	11,416	-	11,416	-
Natural Resources	46,891	-	46,891	-
Health and Human Services	33,828	-	33,828	-
Capital Projects	30,542	-	30,542	-
Government Support & Operations	60,628	-	60,628	-
Unemployment Compensation	-	300,287	300,287	-
Other Purposes	13,933	-	13,933	1,172,379
Funds Held as Permanent Investments:				
Expendable	63,631	-	63,631	-
Nonexpendable	14,961	-	14,961	10,709
Unrestricted	(432,914)	(6,623)	(439,537)	485,499
Total Net Assets	$ 4,228,452	$ 440,021	$ 4,668,473	$ 2,343,945

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 448,917	$ 105,851	$ 29,378	$ -
Arts, Heritage & Cultural Enrichment	11,807	749	3,386	-
Business Licensing & Regulation	69,288	57,772	2,151	-
Economic Development & Workforce Training	374,473	5,972	281,472	-
Education	1,706,305	4,470	309,555	-
Health & Human Services	3,522,341	18,252	2,393,090	-
Justice & Protection	415,450	83,093	63,254	-
Natural Resources Development & Protection	204,379	102,084	46,652	-
Transportation Safety & Development	371,374	110,401	226,885	-
Interest Expense	43,202	-	-	-
Total Governmental Activities	7,167,536	488,644	3,355,823	-
Business-Type Activities:				
Employment Security	203,693	173,416	11,253	-
Alcoholic Beverages	-	12,533	-	-
Lottery	167,956	218,081	-	-
Transportation	11,082	4,182	-	-
Marine Ports	625	-	-	-
Ferry Services	12,711	4,649	-	-
Military Equipment Maintenance	44,765	42,473	-	-
Dirigo Health	47,980	71,396	-	-
Other	6,972	8,619	-	-
Total Business-Type Activities	495,784	535,349	11,253	-
Total Primary Government	$ 7,663,320	$ 1,023,993	$ 3,367,076	$ -
Component Units:				
Finance Authority of Maine	38,267	12,661	26,125	-
Maine Community College System	123,620	17,208	66,706	2,214
Maine Health & Higher Educational Facilities Authority	55,628	50,972	5,446	-
Maine Municipal Bond Bank	71,871	59,032	3,774	37,429
Maine State Housing Authority	283,549	81,536	203,344	-
University of Maine System	678,915	298,211	247,045	22,556
All Other Non-Major Component Units	211,022	41,100	158,604	17,557
Total Component Units	$ 1,462,872	$ 560,720	$ 711,044	$ 79,756

General Revenues:
Taxes:
Corporate
Individual Income
Fuel
Property
Sales & Use
Other
Unrestricted Investment Earnings
Non-Program Specific Grants, Contributions & Appropriations
Miscellaneous Income
Loss on Assets Held for Sale
Tobacco Settlement
Special Items
Transfers - Internal Activities
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (313,688)	$ -	$ (313,688)	$ -
(7,672)	-	(7,672)	-
(9,365)	-	(9,365)	-
(87,029)	-	(87,029)	-
(1,392,280)	-	(1,392,280)	-
(1,110,999)	-	(1,110,999)	-
(269,103)	-	(269,103)	-
(55,643)	-	(55,643)	-
(34,088)	-	(34,088)	-
(43,202)	-	(43,202)	-
(3,323,069)	-	(3,323,069)	-
-	(19,024)	(19,024)	-
-	12,533	12,533	-
-	50,125	50,125	-
-	(6,900)	(6,900)	-
-	(625)	(625)	-
-	(8,062)	(8,062)	-
-	(2,292)	(2,292)	-
-	23,416	23,416	-
-	1,647	1,647	-
-	50,818	50,818	-
$ (3,323,069)	$ 50,818	$ (3,272,251)	$ -
-	-	-	519
-	-	-	(37,492)
-	-	-	790
-	-	-	28,364
-	-	-	1,331
-	-	-	(111,103)
-	-	-	6,239
$ -	$ -	$ -	$ (111,352)
310,693	-	310,693	-
1,455,959	-	1,455,959	-
241,710	-	241,710	-
45,882	-	45,882	-
1,097,900	-	1,097,900	-
283,715	-	283,715	-
17,051	-	17,051	14,830
-	-	-	278,102
107,017	-	107,017	2,090
-	-	-	(1,314)
48,554	-	48,554	-
(36,931)	(7,086)	(44,017)	24,277
(13,016)	13,016	-	-
3,558,534	5,930	3,564,464	317,985
235,465	56,748	292,213	206,633
3,992,987	383,273	4,376,260	2,137,312
$ 4,228,452	$ 440,021	$ 4,668,473	$ 2,343,945


DIRIGO
MAINE

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2011
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ 50,221	$ 45,150	$ -	$ 145,501	$ 336	$ 241,208
Cash and Short-Term Investments	119	116	1	43	-	279
Cash with Fiscal Agent	357	713	-	119,147	-	120,217
Investments	-	-	-	-	78,256	78,256
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	-	-	-	-	34,487	34,487
Inventories	1,296	-	831	-	-	2,127
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	430,911	24,823	-	9,258	-	464,992
Loans Receivable	1	35	-	4,897	-	4,933
Other Receivable	72,060	2,442	69,092	67,633	-	211,227
Due from Other Funds	26,059	2	652	80,191	3	106,907
Due from Other Governments	-	-	494,239	-	-	494,239
Due from Component Units	-	-	-	40,467	116	40,583
Other Assets	2,357	-	391	214	13	2,975
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 583,492	$ 73,281	$ 565,206	$ 467,351	$ 113,211	$ 1,802,541
Liabilities and Fund Balances						
Accounts Payable	$ 250,849	$ 20,426	$ 435,282	$ 28,364	$ 2,083	$ 737,004
Accrued Payroll	18,574	7,649	4,424	7,201	-	37,848
Tax Refunds Payable	159,958	6	-	-	-	159,964
Due to Other Governments	29,736	-	66,157	-	-	95,893
Due to Other Funds	111,860	4,198	21,215	3,994	40	141,307
Due to Component Units	8,399	85	9,395	893	1,951	20,723
Deferred Revenue	233,491	9,123	2,660	25,747	3	271,024
Other Accrued Liabilities	6,994	2	1,654	1,360	-	10,010
Total Liabilities	819,861	41,489	540,787	67,559	4,077	1,473,773
Fund Balances:						
Non-spendable Legal or Contractual	-	-	-	-	14,961	14,961
Non-spendable in Form	3,846	-	1,222	313	-	5,381
Restricted	3,344	31,792	23,197	343,886	94,173	496,392
Committed	-	-	-	38,444	-	38,444
Assigned	-	-	-	17,149	-	17,149
Unassigned	(243,559)	-	-	-	-	(243,559)
Total Fund Balances	(236,369)	31,792	24,419	399,792	109,134	328,768
Total Liabilities and Fund Balances	$ 583,492	$ 73,281	$ 565,206	$ 467,351	$ 113,211	$ 1,802,541

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

June 30, 2011
(Expressed in Thousands)

Total fund balances for governmental funds		$	328,768
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	4,932,467		
Less: Accumulated depreciation	(226,597)		4,705,870
Other Post-Employment Benefit Assets are not financial resources			300
Pollution Remediation Receivable			18,995
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:			
Bonds Payable	(692,380)		
Interest Payable Related to Long-term Financing	(5,046)		
Certificates of Participation and Other Financing Arrangements	(24,664)		
Due to Federal Government	(1,829)		
Loans Payable to Component Unit	(290,919)		
Compensated Absences	(42,015)		
Pension Obligation	(2,028)		
Other Post-Employment Benefit Obligation	(190,622)		
Pollution Remediation Obligation	(39,605)		(1,289,108)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.			269,097
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.			194,530
Net assets of governmental activities		$	4,228,452

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,926,972	$ 218,019	$ -	$ 253,039	$ -	$ 3,398,030
Assessments and Other Revenue	107,878	87,766	3	118,800	-	314,447
Federal Grants and Reimbursements	11,832	-	3,344,827	9,959	-	3,366,618
Service Charges	46,206	5,799	883	102,603	-	155,491
Investment Income	(54)	125	33	653	15,493	16,250
Miscellaneous Revenue	15,805	975	1,180	104,959	9,492	132,411
Total Revenues	3,108,639	312,684	3,346,926	590,013	24,985	7,383,247
Expenditures						
Current:						
Governmental Support & Operations	238,729	3,307	23,878	127,705	6,961	400,580
Economic Development & Workforce Training	34,504	-	287,139	24,282	29,309	375,234
Education	1,389,383	-	309,842	12,526	6,240	1,717,991
Health and Human Services	933,047	-	2,343,477	291,542	3,400	3,571,466
Business Licensing & Regulation	-	-	2,264	65,436	-	67,700
Natural Resources Development & Protection	64,972	33	46,245	91,732	8,186	211,168
Justice and Protection	264,792	31,167	66,765	36,186	1	398,911
Arts, Heritage & Cultural Enrichment	7,081	-	3,396	843	224	11,544
Transportation Safety & Development	7,000	286,732	207,646	87,329	68,821	657,528
Debt Service:						
Principal Payments	89,835	15,100	7,950	9,110	-	121,995
Interest Payments	21,425	5,022	3,922	7,762	-	38,131
Total Expenditures	3,050,768	341,361	3,302,524	754,453	123,142	7,572,248
Revenue over (under) Expenditures	57,871	(28,677)	44,402	(164,440)	(98,157)	(189,001)
Other Financing Sources (Uses):						
Transfer from Other Funds	179,795	12,702	19,691	181,831	1,660	395,679
Transfer to Other Funds	(167,274)	(9,518)	(61,631)	(89,396)	(4,431)	(332,250)
COP's and Other	1,487	882	-	-	2,875	5,244
Loan Proceeds from Component Unit	-	-	-	51,710	-	51,710
Bonds Issued	-	-	-	-	108,135	108,135
Net Other Finance Sources (Uses)	14,008	4,066	(41,940)	144,145	108,239	228,518
Special Item	-	-	(125)	(22,395)	-	(22,520)
Revenues and Other Sources over (under) Expenditures and Other Uses	71,879	(24,611)	2,337	(42,690)	10,082	16,997
Fund Balances at Beginning of Year	(308,248)	56,403	22,082	442,482	99,052	311,771
Fund Balances at End of Year	$ (236,369)	$ 31,792	$ 24,419	$ 399,792	$ 109,134	$ 328,768

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2011
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 16,997
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:		
Capital outlay	260,083	
Depreciation expense	(17,650)	242,433
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(2,747)
Post-employment benefit asset funding, net		(461)
Pollution Remediation Receivable		5,313
The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Assets. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Assets. This is the amount that proceeds exceed repayments:		
Bond proceeds	(108,135)	
Proceeds from other financing arrangements	(2,369)	
Loan proceeds from component unit	(51,710)	
Repayment of bond principal	104,935	
Repayment of other financing debt	16,166	
Repayment of pledged revenue principal	19,185	
Accrued interest	712	(21,216)
Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from the Statement of Activities as follows:		
Pension obligation	5,817	
Other post-employment benefit obligation	(72,922)	
Pollution remediation obligation	10,423	
Due to Federal Government - Disallowed Costs in Litigation	(1,829)	
Compensated absences	(504)	(59,015)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		38,310
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities.		15,851
Changes in net assets of governmental activities		$ 235,465

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2011
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ -	$ 18,228	$ 18,228	$ 122,115
Cash and Short-Term Investments	1,410	756	2,166	3
Cash with Fiscal Agent	-	-	-	24,531
Restricted Assets:				
Restricted Deposits and Investments	265,354	-	265,354	3,971
Inventories	-	2,387	2,387	3,455
Receivables, Net of Allowance for Uncollectibles:				
Other Receivable	35,273	25,633	60,906	525
Due from Other Funds	13	2,516	2,529	21,009
Other Current Assets	-	2,201	2,201	1,827
Total Current Assets	302,050	51,721	353,771	177,436
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	4,781	4,781	31,761
Receivables, Net of Allowance for Uncollectibles:				
Capital Assets - Net of Depreciation	-	146,357	146,357	155,808
Total Noncurrent Assets	-	151,138	151,138	187,569
Total Assets	302,050	202,859	504,909	365,005
Liabilities				
Current Liabilities:				
Accounts Payable	873	2,764	3,637	8,261
Accrued Payroll	-	1,084	1,084	2,768
Due to Other Governments	-	-	-	3
Due to Other Funds	-	4,372	4,372	6,277
Due to Component Units	-	-	-	3,612
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	12,356
Obligations Under Capital Leases	-	-	-	5,881
Claims Payable	-	-	-	27,006
Compensated Absences	-	59	59	299
Deferred Revenue	-	12,799	12,799	419
Other Accrued Liabilities	890	14,498	15,388	461
Total Current Liabilities	1,763	35,576	37,339	67,343
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Deferred Revenue	-	25,000	25,000	736
Certificates of Participation and Other Financing Arrangements	-	-	-	34,810
Obligations Under Capital Leases	-	-	-	27,809
Claims Payable	-	-	-	35,863
Compensated Absences	-	823	823	4,129
Other Post-Employment Benefit Obligation	-	1,400	1,400	-
Total Long-Term Liabilities	-	27,223	27,223	103,458
Total Liabilities	1,763	62,799	64,562	170,801
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	146,357	146,357	99,812
Restricted for:				
Unemployment Compensation	300,287	-	300,287	-
Other Purposes	-	-	-	65
Unrestricted	-	(6,297)	(6,297)	94,327
Total Net Assets	$ 300,287	$ 140,060	$ 440,347	$ 194,204
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			(326)	
Net Assets of Business-Type Activities			$ 440,021	

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Operating Revenues				
Charges for Services	$ -	$ 344,959	$ 344,959	$ 420,669
Assessments	173,415	1,769	175,184	-
Miscellaneous Revenues	1	2,623	2,624	593
Total Operating Revenues	173,416	349,351	522,767	421,262
Operating Expenses				
General Operations	-	282,287	282,287	371,198
Depreciation	-	7,826	7,826	17,006
Claims/Fees Expense	203,693	-	203,693	8,464
Other Operating Expenses	-	-	-	194
Total Operating Expenses	203,693	290,113	493,806	396,862
Operating Income (Loss)	(30,277)	59,238	28,961	24,400
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	11,253	-	11,253	801
Interest Expense	-	-	-	(7,813)
Other Nonoperating Revenues (Expenses) - net	-	12,582	12,582	(1,118)
Total Nonoperating Revenues (Expenses)	11,253	12,582	23,835	(8,130)
Income (Loss) Before Capital Contributions, Transfers and Special Items	(19,024)	71,820	52,796	16,270
Capital Contributions, Transfers and Special Items				
Capital Contributions from (to) Other Funds	-	61,559	61,559	2,927
Transfers from Other Funds	-	7,062	7,062	11,565
Transfers to Other Funds	(1,337)	(54,268)	(55,605)	(2,478)
Special Items	-	(7,086)	(7,086)	(14,411)
Total Capital Contributions, Transfers In (Out) and Special Items	(1,337)	7,267	5,930	(2,397)
Change in Net Assets	(20,361)	79,087	58,726	13,873
Total Net Assets - Beginning of Year	320,648	60,973	381,621	180,331
Total Net Assets - End of Year	$ 300,287	$ 140,060		$ 194,204
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			(1,978)	
Changes in Business-Types Net Assets			$ 56,748	

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2011
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 168,589	$ 351,283	$ 519,872	$ 423,684
Payments of Benefits	(204,095)	-	(204,095)	-
Payments to Prize Winners	-	(135,587)	(135,587)	-
Payments to Suppliers	-	(120,987)	(120,987)	(328,909)
Payments to Employees	-	(33,727)	(33,727)	(73,204)
Net Cash Provided (Used) by Operating Activities	(35,506)	60,982	25,476	21,571
Cash Flows from Noncapital Financing Activities				
Operating Transfers In	-	7,062	7,062	11,565
Operating Transfers Out	(1,337)	(54,268)	(55,605)	(2,478)
Special Items - OPEB Trust Contribution	-	-	-	(14,411)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,337)	(47,206)	(48,543)	(5,324)
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(2,088)	(2,088)	(14,243)
Proceeds from Financing Arrangements	-	-	-	24,186
Principal and Interest Paid on Financing Arrangements	-	-	-	(27,125)
Proceeds from Sale of Capital Assets	-	13	13	19
Net Cash Provided (Used) by Capital Financing Activities	-	(2,075)	(2,075)	(17,163)
Cash Flows from Investing Activities				
Interest Revenue	11,253	82	11,335	801
Net Cash Provided (Used) by Investing Activities	11,253	82	11,335	801
Net Increase (Decrease) in Cash/Cash Equivalents	(25,590)	11,783	(13,807)	(115)
Cash/Cash Equivalents - Beginning of Year	292,354	11,982	304,336	182,495
Cash/Cash Equivalents - End of Year	$ 266,764	$ 23,765	$ 290,529	$ 182,380
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (30,277)	$ 59,238	$ 28,961	$ 24,400
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	7,826	7,826	17,006
Decrease (Increase) in Assets				
Accounts Receivable	(4,931)	1,931	(3,000)	1,793
Interfund Balances	(65)	(5,866)	(5,931)	555
Inventories	-	74	74	163
Other Assets	-	-	-	(920)
Increase (Decrease) in Liabilities				
Accounts Payable	(357)	(2,798)	(3,155)	(14,491)
Accrued Payroll Expenses	-	(523)	(523)	319
Due to Other Governments	-	-	-	(11,938)
Change in Compensated Absences	-	74	74	151
Other Accruals	124	1,026	1,150	4,533
Total Adjustments	(5,229)	1,744	(3,485)	(2,829)
Net Cash Provided (Used) by Operating Activities	$ (35,506)	$ 60,982	$ 25,476	$ 21,571
Non Cash Investing, Capital and Financing Activities				
Property Leased, Accrued, or Acquired	-	-	-	5,230
Contributed Capital Assets	-	53,530	53,530	2,927
Decrease of Deferred Revenue From the Sale of Liquor Operations	-	12,500	12,500	-
Special Item - Eastport Cargo Pier	-	(7,086)	(7,086)	-

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2011
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Current Assets:			
Equity in Treasurer's Cash Pool	$ -	$ 1,650	$ 9,807
Cash and Short-Term Investments	32,553	-	27
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	18,181	-	-
Loans to Institutions	-	-	-
Interest and Dividends	4,997	4,050	-
Due from Brokers for Securities Sold	104	8,794	-
Investments at Fair Value:			
Debt Securities	103,685	-	-
Equity Securities	3,863,562	-	-
Common/Collective Trusts	7,051,476	-	-
Foreign Governments and Agencies	-	-	11
Other	-	11,944	-
Securities Lending Collateral	279,674	-	-
Due from other funds	-	21,520	-
Investments Held on Behalf of Others	-	5,982,144	61,073
Capital Assets - Net of Depreciation	10,947	-	-
Other Assets	-	5,433	520
Total Assets	11,365,179	6,035,535	71,438
Liabilities			
Accounts Payable	6,053	3,956	1
Due to Other Funds	-	7	2
Due to Other Governments	-	-	-
Due to Brokers for Securities Purchased	-	8,331	-
Agency Liabilities	-	-	71,422
Obligations Under Securities Lending	279,674	-	-
Other Accrued Liabilities	27,759	-	13
Funds Held in Trust - noncurrent			
Total Liabilities	313,486	12,294	71,438
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	11,051,693	6,023,241	-
Total Net Assets	$ 11,051,693	$ 6,023,241	$ -

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 167,630	$1,728,789
State and Local Agencies	443,992	-
Investment Income (Loss):		
Net Increase (Decrease) in the Fair Value of Investments	1,929,070	874,846
Capital Gains Distributions from Investments	-	4,227
Interest and Dividends	107,496	96,619
Securities Lending Income	1,261	-
Less Investment Expense:		
Investment Activity Expense	19,704	-
Securities Lending Expense	(145)	-
Net Investment Income (Loss)	2,018,268	975,692
Miscellaneous Revenues	-	10,889
Transfers In	-	729
Total Additions	2,629,890	2,716,099
Deductions:		
Benefits Paid to Participants or Beneficiaries	760,326	1,488,679
Refunds and Withdrawals	32,993	-
Administrative Expenses	10,104	44,257
Claims Processing Expense	737	-
Transfers Out	-	24,697
Total Deductions	804,160	1,557,633
Net Increase (Decrease)	1,825,730	1,158,466
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	9,225,963	4,864,775
End of Year	$11,051,693	$6,023,241

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2011
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Assets			
Current Assets:			
Equity in Treasurer's Cash Pool	$ 26,926	$ 16,054	$ 3,973
Cash and Cash Equivalents	5,314	3,713	9,192
Investments	49,232	29,885	28,382
Restricted Assets:			
Restricted Deposits and Investments	-	-	-
Inventories	-	1,272	-
Receivables, Net of Allowance for Uncollectibles:			
Loans Receivable	-	-	51,795
Notes Receivable	-	-	-
Other Receivables	632	8,749	1,554
Due from Other Governments	116	-	-
Due from Primary Government	-	315	-
Loans Receivable from Primary Government	-	-	-
Other Current Assets	1,860	1,078	785
Total Current Assets	84,080	61,066	95,681
Noncurrent Assets:			
Equity in Treasurer's Cash Pool	7,065	4,212	1,042
Assets Held in Trust	-	-	-
Restricted Assets:			
Restricted Deposits and Investments	-	1,141	157,410
Investments	-	12,349	-
Receivables, Net of Current Portion:			
Loans Receivable	-	-	1,165,053
Notes Receivable	25,752	-	-
Other Receivables	-	-	218
Due from Other Governments	-	-	-
Due from Primary Government	-	-	-
Loans Receivable from Primary Government	-	-	-
Post-Employment Benefit Asset	-	9,326	-
Capital Assets - Net of Depreciation	2,163	127,678	-
Other Noncurrent Assets	-	242	-
Total Noncurrent Assets	34,980	154,948	1,323,723
Total Assets	119,060	216,014	1,419,404
Liabilities			
Current Liabilities:			
Accounts Payable	2,275	3,792	89
Accrued Payroll	-	-	-
Compensated Absences	-	1,944	-
Due to Other Governments	-	-	810
Due to Primary Government	-	-	-
Amounts Held under State & Federal Loan Programs	-	-	-
Undistributed Grants and Administrative Funds	11,832	-	-
Allowances for Losses on Insured Commercial Loans	14,979	-	-
Bonds Payable	805	-	52,300
Notes Payable	-	54	-
Obligations under Capital Leases	-	1,310	-
Accrued Interest Payable	-	-	26,866
Deferred Revenue	1,262	1,097	2,734
Other Current Liabilities	3	8,157	-
Total Current Liabilities	31,156	16,354	82,799
Long-Term Liabilities:			
Due to Other Governments	-	-	129
Amounts Held under State & Federal Loan Programs	48,760	-	-
Bonds Payable	763	-	1,287,230
Notes Payable	-	24,600	-
Obligations under Capital Leases	-	2,180	-
Deferred Revenue	-	-	-
Other Noncurrent Liabilities	-	-	-
Total Long-Term Liabilities	49,523	26,780	1,287,359
Total Liabilities	80,679	43,134	1,370,158
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,163	100,917	-
Restricted	14,058	31,914	29,084
Unrestricted	22,160	40,049	20,162
Total Net Assets	$ 38,381	$ 172,880	$ 49,246

The accompanying notes are an integral part of the financial statements.

Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
$ -	$ -	$ 37,168	$ 2,123	$ 86,244
129	1,819	2,506	84,784	107,457
21,039	329,532	180,280	4,419	642,769
-	-	-	21,650	21,650
-	-	-	838	2,110
-	29,251	-	13,683	94,729
-	3	63	894	960
1,187	22,840	39,084	5,133	79,179
134,216	5,490	14,748	3,265	157,835
-	-	10,775	5,551	16,641
21,276	-	-	-	21,276
30,000	-	4,728	2,220	40,671
207,847	388,935	289,352	144,560	1,271,521
-	-	9,752	557	22,628
-	-	-	5	5
348,795	-	3,374	9,502	520,222
-	135,276	306,832	17,163	471,620
-	1,349,143	-	133,833	2,648,029
-	773	39,840	4,037	70,402
-	-	7,134	5,612	12,964
1,446,450	-	-	-	1,446,450
-	-	1,742	113	1,855
269,643	-	-	-	269,643
-	-	-	-	9,326
743	2,617	668,482	97,698	899,381
2,209	7,120	16,169	7,541	33,281
2,067,840	1,494,929	1,053,325	276,061	6,405,806
2,275,687	1,883,864	1,342,677	420,621	7,677,327
468	50,993	19,057	16,076	92,750
-	-	-	1,016	1,016
-	-	-	570	2,514
484	105	-	1,301	2,700
40,467	-	-	116	40,583
30,208	-	-	-	30,208
1,972	-	-	-	13,804
-	-	-	-	14,979
125,176	16,195	9,929	5,320	209,725
-	-	-	518	572
-	-	611	25	1,946
13,668	7,300	-	728	48,562
2,591	13,942	13,780	27,310	62,716
-	-	29,993	855	39,008
215,034	88,535	73,370	53,835	561,083
2,881	4,184	-	1,710	8,904
-	-	-	-	48,760
1,469,311	1,457,681	183,178	165,849	4,564,012
-	-	-	1,183	25,783
-	-	3,989	55	6,224
-	14,933	-	3,590	18,523
-	-	100,011	82	100,093
1,472,192	1,476,798	287,178	172,469	4,772,299
1,687,226	1,565,333	360,548	226,304	5,333,382
743	2,617	474,651	94,267	675,358
523,111	300,700	210,805	73,416	1,183,088
64,607	15,214	296,673	26,634	485,499
$ 588,461	$ 318,531	$ 982,129	$ 194,317	$2,343,945

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Expenses	$ 38,267	$ 123,620	$ 55,628
Program Revenues			
Charges for Services	12,661	17,208	50,972
Program Investment Income	197	2,203	5,446
Operating Grants and Contributions	25,928	64,503	-
Capital Grants and Contributions	-	2,214	-
Net Revenue (Expense)	519	(37,492)	790
General Revenues			
Unrestricted Investment Earnings	562	2,533	87
Non-program Specific Grants, Contributions and Appropriations	-	54,643	-
Miscellaneous Income	(1,781)	1,553	114
Gain (Loss) on Assets Held for Sale	-	-	-
Special Item	-	-	-
Total General Revenues	(1,219)	58,729	201
Change in Net Assets	(700)	21,237	991
Net Assets, Beginning of the Year	39,081	151,643	48,255
Net Assets, End of Year	$ 38,381	$ 172,880	$ 49,246

The accompanying notes are an integral part of the financial statements.

Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
$ 71,871	$ 283,549	$ 678,915	$ 211,022	$1,462,872
59,032	81,536	298,211	41,100	560,720
3,037	5,885	-	3,654	20,422
737	197,459	247,045	154,950	690,622
37,429	-	22,556	17,557	79,756
28,364	1,331	(111,103)	6,239	(111,352)
123	10	10,663	852	14,830
-	-	207,131	16,328	278,102
1,467	-	-	737	2,090
-	-	(53)	(1,261)	(1,314)
-	-	-	24,277	24,277
1,590	10	217,741	40,933	317,985
29,954	1,341	106,638	47,172	206,633
558,507	317,190	875,491	147,145	2,137,312
$ 588,461	$ 318,531	$ 982,129	$ 194,317	$2,343,945

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine (the State) have been prepared under guidelines established by generally accepted accounting principles (GAAP) as mandated by the Governmental Accounting Standards Board (GASB).

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

A. REPORTING ENTITY

For financial reporting purposes, the State of Maine's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, organizations, agencies, boards, commissions and authorities. Component units are legally separate organizations for which the State is financially accountable. Component units can also be legally separate, tax exempt entities that raise and hold economic resources for the direct benefit of a governmental unit.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The State is financially accountable for those entities for which it appoints a voting majority of the governing board and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government or if the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement No. 14*, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, a few of the component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

Blended Component Units - The Maine Governmental Facilities Authority (MGFA) is a legally separate organization that has its board appointed by the primary government and provides services entirely, or almost entirely, to the State. Therefore, the State reports MGFA's balances and transactions as though they were part of the primary government, using the blending method.

The MGFA was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. In their separately issued financial statements, MGFA records a lease receivable from the State and a liability for bonds issued. However, in accordance with GASBS 14, capital leases that exist between the State and MGFA are not recorded as leases in this report. The assets associated with these leases are reported in the government-wide statements along with the related debt. The corresponding debt service activity is recorded in the Governmental Funds. MGFA financial activity associated with servicing the debt is reported in an internal service fund.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. Component units that are not material to the State's financial statements have been excluded. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government.

The State is able to impose its will upon these discretely presented component units:

The Maine Community College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the System include the activity of seven colleges, the central administrative office, the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

The University of Maine System is the State University governed by a single Board of Trustees appointed by the Governor. The combined financial statements of the System include the activity of seven universities, eleven centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

There is a financial burden/benefit relationship between these entities and the State:

The Finance Authority of Maine provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, and the Occupational Safety Program Fund Board. Additionally, the Authority administers the Maine College Savings Program. Net assets of the program, NextGen College Investing Plan, are included in the State's fiduciary fund financial statements. The Governor appoints the fifteen voting members of the Authority.

Maine Health & Higher Educational Facilities Authority (MHHEFA) – MHHEFA assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction and equipping of their facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, may also finance student loan programs of institutions of higher education. MHHEFA consists of twelve members, four of whom serve *ex officio* and must be the Superintendent of Financial Institutions, the Commissioner of Health and Human Services, the Commissioner of Education, and the Treasurer of State. The remaining eight members must be residents of the State appointed by the Governor.

The Maine Municipal Bond Bank issues bonds on behalf of counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations or eligible borrowers as designated by the Legislature (the "governmental units") within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners. The remaining two members include the Treasurer of State and Superintendent of Financial Institutions who serve as commissioners, *ex officio*.

Maine State Housing Authority issues bonds to purchase notes and mortgages on residential units, both single and multi-family, for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as an agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collecting and disbursing federal rent subsidies for low income housing. The Governor appoints five of the Authority's seven commissioners. The remaining two commissioners are the Treasurer of State and the Director of the Maine State Housing Authority, both of whom serve *ex officio*. The Authority's fiscal year ends on December 31.

The State's financial statements also include a fiduciary component unit:

Maine Public Employees Retirement System administers an agent-multiple employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 313 local municipalities and other public entities in

Maine. The Governor appoints four of the Board's eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

Complete financial statements of the major component units can be obtained directly from their respective administrative offices by writing to:

Finance Authority of Maine 5 Community Dr. PO Box 949 Augusta, ME 04332-0949	Maine Governmental Facilities Authority PO Box 2268 Augusta, ME 04338-2268	Maine Municipal Bond Bank PO Box 2268 Augusta, ME 04338-2268	Maine State Housing Authority 89 State House Station 353 Water Street Augusta, ME 04330-4633
Maine Community College System 323 State Street Augusta, ME 04330-7131	Maine Health and Higher Ed. Facilities Authority PO Box 2268 Augusta, ME 04338-2268	Maine Public Employees Retirement System 46 State House Station Augusta, ME 04333-0046	University of Maine System 16 Central Street Bangor, ME 04401-5106

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Turnpike Authority and the Maine Veteran's Home. The primary government has no material accountability for these organizations beyond making board appointments.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements
The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $796.5 million of restricted net assets, of which $114.7 million is restricted by enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting

the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Fund Financial Statements
Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Measurement Focus and Basis of Accounting
The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with a GASB pronouncement. The FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the governmental funds when they become susceptible to accrual, generally when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues available if they are collected within 60 days of the end of the fiscal year.

Significant revenues susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

The State Tax Assessor levies taxes on properties located in the unorganized territory of Maine by August 1 of each year, and on telecommunications personal properties statewide by May 30 of each year. Unorganized territory property taxes are due on October 1 and telecommunications personal property taxes are due on August 15. Formal collection procedures begin on November 1, and unpaid property taxes become a lien no later than March 15 of the fiscal year for which they are levied.

Expenditures are generally recorded when a liability is incurred. However, expenditures related to claims and judgments, debt service and compensated absences are recorded only when payment is due and payable.

Financial Statement Presentation
The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The *Highway Fund* accounts for the regulation, construction and maintenance of State highways and bridges and is funded by motor fuel taxes, motor vehicle license and registration fees, special State appropriations, and other charges.

The *Federal Fund* accounts for grants and other financial assistance received from the federal government, including federal block grants, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally restricted to expenditures for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal Funds. Examples of the most significant types of revenue sources include: Fund for a Healthy Maine (tobacco settlement revenue), State municipal revenue sharing, hospital and service provider taxes, and oil transfer fees.

The State reports the following major enterprise fund:

The *Maine Employment Security Fund* receives contributions from employers and provides unemployment compensation benefits to eligible unemployed workers.

Additionally, the State reports the following fund types:

Governmental Fund Types:
Special Revenue Funds include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. An example is funds for acquisition of public reserved lands.

Capital Projects Funds account for the acquisition or construction of major capital assets and other programs financed by bond proceeds.

Permanent Trust Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. An example is the Baxter State Park Fund.

Proprietary Fund Types:
Enterprise Funds report the activities for which fees are charged to external users for goods or services, such as the unemployment compensation program, lottery operations and transportation services.

Internal Service Funds provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include printing and mailing services, supplies warehousing, information technology, fleet management, risk management, health-related benefits, and financing for acquisition and construction of governmental facilities.

Fiduciary Fund Types:
Pension (and Other Employee Benefit) Trust Funds report resources that are required to be held in trust for members and beneficiaries of the State's pension, death and disability benefit plans. These resources are managed by the Maine Public Employees Retirement System (MPERS). The fund also reports resources that are required to be held in trust for members and beneficiaries of the State's retiree healthcare benefits. The

investment trust, managed by the Maine Public Employees Retirement System, holds the long-term investments of the trust. The trustees of the Other Employee Benefit Trust Fund are the State Controller and State Treasurer.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include Abandoned Property, Public Reserved Lands, Permanent School funds and NextGen College Investing Plan.

Agency Funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples include amounts held for payroll withholdings, inmate and student guardianship accounts.

D. FISCAL YEAR-ENDS

All funds and discretely presented major component units are reported using fiscal years which end on June 30, except for the Maine Educational Loan Authority and the Maine State Housing Authority, which utilize December 31 year-ends.

E. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCE

Equity in Treasurer's Cash Pool
The State pools cash and cash equivalents for a variety of State agencies and public sector entities. The pooled balances are reported at fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. The Treasurer's Cash Pool has the general characteristics of a demand deposit account and is comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations, certificates of deposit, and corporate bonds.

For component units that participate in the cash pool, equity is shown at fair value.

Cash and Cash Equivalents
Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. On the Statement of Cash Flows, the amount reported as "Cash and Cash Equivalents" is equal to the total of the amounts reported on the Statement of Net Assets as "Equity in Treasurer's Cash Pool," "Cash and Cash Equivalents," "Cash with Fiscal Agent," "Restricted Equity in Treasurer's Cash Pool," and "Restricted Deposits and Investments."

Cash with Fiscal Agent
Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds, the unspent proceeds of bonds and Certificates of Participation, as well as unspent funds of the Maine Biological Research Board being held by the State.

Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

Investments Held on Behalf of Others
These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. Generally, these investments are reported at fair value or at amortized cost which approximates fair value. The State also holds $135 million of Workers' Compensation, $147 million of Bureau of Insurance, and $26 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

Restricted Deposits and Investments
Restricted deposits and investments include: unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Governmental Facilities Authority, a blended component unit that has been independently audited; unspent bond proceeds, and funds invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine.

Inventories
The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Undistributed vaccines and food commodities are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when food stamps are used (EBT cards), and when vaccines and food commodities are issued. Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost.

Inventories included in the component unit column are stated at the lower of cost or market (using the first-in, first-out method).

Receivables
Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units' column arise in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

Interfund Transactions and Balances
Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that transactions between funds were not completed as of June 30, interfund receivables and payables have been recorded in the fund financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Long-term loans made by one fund to another are classified as "Working Capital Advances Receivable" and "Working Capital Advances Payable." In the fund financial statements, advances receivable are offset by nonspendable fund balance designations indicating that the long-term loans do not constitute expendable financial resources.

Due from/to Primary Government/Component Units
Numerous transactions are made between the primary government and component units to finance operations, provide services, acquire or construct assets, or repay bonds. To the extent that transactions between funds were not completed as of June 30, "Due from Primary Government" and "Due to Component Unit" receivables and payables have been recorded. Two component units have December 31 year ends, therefore the "due to" and "due from" amounts may differ.

Due from/to Other Governments
Due from/to Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other health and human services programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units' column represents amounts receivable for grants, bond

repayment and retirement benefits. Due to Other Governments primarily consist of amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers.

Capital Assets
Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $100 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and proprietary fund equipment is capitalized $5 thousand or more. Governmental and proprietary fund software is capitalized at $1 million or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

In the government-wide statements, most capital assets are depreciated on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for software, buildings and improvements, and 2-25 years for equipment. The State uses the modified approach for reporting its significant infrastructure assets. As long as the State maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Capital assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them.

Accounts Payable
Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate at June 30, 2011 is $252 million.

Tax Refunds Payable
The amount of collected or accrued tax revenues that will be refunded is estimated and accrued as a General Fund liability.

Claims Payable
Claims payable represent workers' compensation, retiree health, employee health, and other claims payable, including actual claims submitted and actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

Compensated Employee Absences
In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as a long-term liability as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2011 but paid after the fiscal year end is also reported in the funds. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

Deferred Revenue
In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. Deferred revenue reported in the General Fund relates to sales and income taxes. Deferred revenue in the Federal Fund consists primarily of food commodities not yet issued. Deferred revenue in the Alcoholic Beverages Fund comprises the proceeds from the sale of the State's liquor operations.

Loans Payable to Component Unit
In the Statement of Net Assets, the amount of bond proceeds received by a component unit for unmatured GARVEE and TransCap bond proceeds is called "Loans Payable to Component Unit." The offsetting receivables are classified as "Loans Receivable from Primary Government."

Long-Term Obligations
In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term obligations are recorded as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Net Assets/Fund Balances
The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balances" on governmental fund statements.

Fund Balance Restrictions
Fund balances for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

The State reported the following fund balance restrictions:

Nonspendable Fund Balance **-** indicates items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless those proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted Fund Balances – include balances that are legally restricted for specific purposes due to constraints that are either externally imposed by creditors, grantors, contributors, or imposed by law through a constitutional provision or enabling legislation.

Committed Fund Balances – indicates assets can be used only for specific purposes pursuant to constraints imposed by a formal action of the Maine Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the legislature, creating, modifying, or rescinding an appropriation.

Assigned Fund Balances – include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

Unassigned Fund Balance – is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

F. REVENUES AND EXPENDITURES/EXPENSES

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., governmental support & operations, education, health & human services, etc). Additionally, revenues are classified between program and general revenues. Program revenues include: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

The State's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, the State's policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

In the governmental fund financial statements, expenditures are reported by function. Capital outlay expenditures for real property or infrastructure (e.g. highways) are included with expenditures by function.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. general operations and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating, capital contributions, transfers or special items.

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Appropriation Limits

The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in Title 5 Maine Revised Statutes Annotated (MRSA) § 1665, subsection 1, plus the average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee.

This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits.

The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of, this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Budget Stabilization Fund

The Maine Budget Stabilization Fund, a fund designation established under Title 5 MRSA C. 142, is included in the negative $244 million unassigned General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. As the fourth priority before any other transfer, the State Controller is required to transfer 35 percent of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap. In accordance with the statute, the State Controller made the required transfer for fiscal year 2011. Per Public Law 2011, Chapter 1, Part M and Public Law 2011, Chapter 28, Part I, an additional $28.2 million was transferred from the General Fund unappropriated surplus to the Budget Stabilization fund. Per Public Law 2011, Chapter 380, Sec RRR-2, $7.6 million was transferred from the Unclaimed Property fund account to the Budget Stabilization fund.

The statutory cap for the fund is 12 percent of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2011 actual General Fund revenue, the statutory cap at the close of fiscal year 2011 and during fiscal year 2011 was $353.4 million. At the close of fiscal year 2011, the balance of the Maine Budget Stabilization Fund was $71.4 million. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

Budget Stabilization Fund Activity
(Expressed in Thousands)

Balance, beginning of year	$ 25,385
Increase in fund balance	46,029
Balance, end of year	$ 71,414

Budget and Budgetary Expenditures

The gross unified budget bills and budget document encompass resources from the General Fund, Highway Fund, Federal Expenditures Fund, Federal Block Grant Fund, Other Special Revenue Fund, internal service funds and enterprise funds. Separate gross unified budget bills must be submitted for the General Fund and the Highway Fund. All funds except trust and agency funds, bond funds and costs of goods sold expenditures in internal service funds and enterprise funds are subject to legislative allocation. The biennial budget sets forth proposed expenditures for the administration, operation and maintenance of the departments and agencies of the State Government; all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year. Within this structure, budgetary control by agency is maintained at the program and line category level. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers.

Except in specific instances, only the Legislature may transfer appropriations between departments. Changes in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2011, the Legislature decreased supplemental appropriations to the General Fund by $27.4 million.

Actual expenditures did not exceed legislatively authorized appropriations at the Department level; therefore, the State complied with all related budget laws at the legal level.

Governmental Fund Balances – Restricted, Committed and Assigned

The State's fund balances represent: (1) restricted purposes, which include balances legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature; (3) assigned purposes, which includes balances that are constrained by government's intent to be used for specific purposes, but are neither restricted or committed. A summary of the nature and purpose of these fund balance types at June 30, 2011 are as follows:

Governmental Fund Balances
(Expressed in Thousands)

	Restricted	Committed	Assigned
General Fund:			
Natural Resources Development & Protection	$ 3,344	$ -	$ -
Total	$ 3,344	$ -	$ -
Highway Fund:			
Transportation Safety & Development	$ 28,378	$ -	$ -
Justice and Protection	3,084	-	-
Governmental Support & Operations	327	-	-
Natural Resources Development & Protection	3	-	-
Total	$ 31,792	$ -	$ -
Federal Fund:			
Education	$ 542	$ -	$ -
Governmental Support & Operations	5,305	-	-
Health and Human Services	14,007	-	-
Justice and Protection	1,042	-	-
Natural Resources Development & Protection	2,301	-	-
Total	$ 23,197	$ -	$ -
Other Special Revenue Fund:			
Arts, Heritage & Cultural Enrichment	$ 422	$ 61	$ 28
Business Licensing & Regulation	45,202	325	147
Economic Development & Workforce Training	9,504	3,332	147
Education	2,764	329	149
Governmental Support & Operations	55,159	17,250	466
Health and Human Services	22,007	8,147	13,543
Justice and Protection	8,803	3,825	803
Natural Resources Development & Protection	44,326	4,800	1,695
Transportation Safety & Development	155,700	375	170
Total	$ 343,887	$ 38,444	$ 17,148
Other Governmental Funds:			
Capital Projects	$ 30,542	$ -	$ -
Natural Resources Development & Protection	63,256	-	-
Other	375	-	-
Total	$ 94,173	$ -	$ -

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
During fiscal year ended June 30, 2011, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

As a result of implementing this new standard, the State identified additional fiscal year 2010 net asset restrictions totaling $351.0 million on the Statement of Net Assets, of which $325.0 million resulted from enabling legislation from prior fiscal years.

Change in Classification
For the current fiscal year the State recorded $30.7 million of expenditures related to the Bureau of Motor Vehicles within the Transportation Safety and Development function. In the prior fiscal year, similar expenditures totaling $32 million had been classified as Governmental Support and Operations. This change was made to report related revenue and expenditures within the same function.

Additionally, in the current fiscal year, the State recorded $49.9 million in Fuel Tax revenue that had previously been recorded as a Sales and Use Tax. The prior year revenue totaled $49.3 million. This change was made to consistently report Fuel Tax revenue received by the State.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Three internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2011. The Workers' Compensation Fund reported a deficit of $9.5 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $4.1 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $1.9 million because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of $37.5 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The General Fund shows a deficit fund balance of $236.4 million at June 30, 2011. This deficit is primarily due to the full recognition of the State's share of Medicaid liabilities at fiscal year end, which are funded throughout the year with the aforementioned tax revenue. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under Governmental Accounting Standards Board (GASB) Statement No. 33. Per GASB 33, revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

NOTE 5 - DEPOSITS AND INVESTMENTS

Title 5 MRSA § 135 governs the deposit and investment policies of the State of Maine Office of the Treasurer. The Treasurer may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State and any national bank or federal savings and loan association located in the State.

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. The Treasurer may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and the consent of the Governor.

Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 36 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 months; prime commercial paper; tax-exempt obligations; corporate bonds rated "AAA" that mature within 36 months from the date of investment; banker's acceptances; and "no-load" shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares maintain a constant share price. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by Title 5 MRSA § 138. The Treasurer, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions and the Attorney General, shall invest the funds in securities that are legal investments in accordance with Title 9-B MRSA. The investments need not be segregated to the separate trusts, but the identity of each trust must be maintained. The Treasurer may enter into custodial care and servicing contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

No amounts exceeding 25 percent of the capital, surplus, and undivided profits of any trust company or national bank or 25 percent of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any one institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

With assistance from the Finance Authority of Maine, the Treasurer participates in a restricted deposit program to encourage banks to provide loans at two percent below market rate. The Treasurer may invest up to $8 million in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. $4 million of this program are earmarked for loans to agricultural enterprises and the other $4 million are designated for commercial entities.

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2011:

Primary Government Deposits and Investments
(Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Private Purpose Trusts	Agency Funds	Total
Equity in Treasurer's Cash Pool	$ 395,084	$ 23,009	$ 1,650	$ 9,807	$ 429,550
Cash and Cash Equivalents	282	2,166	-	27	2,475
Cash with Fiscal Agent	144,748	-	-	-	144,748
Investments	78,256	-	11,944	-	90,200
Restricted Equity in Treasurer's Cash Pool	34,487	-	-	-	34,487
Restricted Deposits and Investments	3,971	265,354	-	11	269,336
Investments Held on Behalf of Others	-	-	5,982,144	61,073	6,043,217
Other Assets	-	-	-	-	-
Total Primary Government	$ 656,828	$ 290,529	$ 5,995,738	$ 70,918	$ 7,014,013

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In general, the State holds securities to maturity. All debt securities are reported at full-term.

The following table provides the segmented time distribution of the Primary Government's investments at June 30, 2011:

Maturities in Years
(Expressed in Thousands)

	Less than 1	1 - 5	6 - 10	11 - 20	More than 20	No Maturity	Fair Value
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	$ 1,013	$ 55,681	$ -	$ -	$ -	$ -	$ 56,694
US Treasury Notes	-	46,999	-	-	-	-	46,999
Repurchase Agreements	35,036	-	-	-	-	-	35,036
Corporate Notes and Bonds	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	4,474	-	-	-	-	-	4,474
Money Market	-	-	-	-	-	-	-
Cash and Cash Equivalents	-	-	-	-	-	315,807	315,807
Unemployment Fund							
Deposits with US Treasury	-	-	-	-	-	265,354	265,354
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	156	3,419	139	621	2,407	-	6,742
US Treasury Notes	3,702	13,904	3,721	12,191	-	1,054	34,572
Repurchase Agreements	887	-	-	-	-	-	887
Corporate Notes and Bonds	-	4,364	1,484	4	1,076	5,620	12,548
Other Fixed Income							
Securities	4,028	-	200	-	46	-	4,274
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	113	-	-	-	-	11,379	11,492
Money Market	-	-	-	-	-	907	907
Cash and Cash Equivalents	-	-	-	-	-	18,036	18,036
Equities	-	-	-	-	-	69,475	69,475
Other	-	-	-	-	-	3,824	3,824
	$ 49,409	$ 124,367	$ 5,544	$ 12,816	$ 3,529	$ 691,456	$ 887,121
NextGen College Investing Plan							5,982,144
Other Assets							-
Cash with Fiscal Agent							144,748
Total Primary Government							$ 7,014,013

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. The State's investment policy limits its investments to those with high credit quality made by or with the advice and upon the due diligence of the State's independent investment advisor. The State limits credit risk in its trusts by ensuring that at least 85 percent of the debt securities are rated A or better.

The Primary Government's total investments by credit quality rating as of June 30, 2011 are presented below:

Standard & Poor's Credit Rating (Expressed in Thousands)

	A1	A	AA	AA+	AAA	BB	BBB	Not Rated	Total
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	$ -	$ -	$ -	$ -	$ 56,694	$ -	$ -	$ -	$ 56,694
US Treasury Notes	-	-	-	-	-	-	-	46,999	46,999
Corporate Notes and Bonds	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	-	-	-	2,639	-	-	4,103	6,742
US Treasury Notes	-	-	-	-	4,419	-	-	30,152	34,571
Corporate Notes and Bonds	-	1,938	481	-	394	-	657	9,078	12,548
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Other Fixed Income Securities	-	43	46	-	45	-	112	4,028	4,274
Total Primary Government	$ -	$ 1,981	$ 527	$ -	$ 64,191	$ -	$ 769	$ 94,360	$ 161,828

Concentration of Credit Risk –Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than 10 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2011, there were no investments that exceeded five percent of the Treasurer's Cash Pool.

Custodial Credit Risk - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's $5.8 million invested in non-negotiable certificates of deposit, none exceeded the FDIC insured amounts for the institutions at which they were held. The State does not have a policy regarding custodial credit risk for its trusts. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name.

The fair value of the trust's investments as of June 30, 2011 was $63.3 million and was comprised of the following:

U.S. Instrumentalities	$ 3,088
US Treasury Notes	2,759
Corporate Notes and Bonds	3,161
Other Fixed Income Securities	4,275
Equities	47,612
Cash and Equivalents	361
Other	2,000
Total	$ 63,256

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2011 these disbursements, on average, exceeded $148.4 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Maine Public Employees Retirement System (the System) makes investments in a combination of equities, fixed income securities, infrastructure, private equity, real estate, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy.

Derivative Securities – Derivative financial instruments are financial contracts whose value depends on the value of one or more underlying assets, reference rates or financial indices. They include futures, forwards, options, and swap contracts. The System's investments in derivative securities only have nominal exposure to custodial credit risk. Credit risk is managed, in the case of exchange-traded derivatives, by the execution of trades through a clearinghouse and, in the case of over-the-counter transactions, by managers' due diligence assessment and approval of counterparties. Market risk is managed by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and are monitored by the Chief Investment Officer.

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. The System's fixed income managers invest in CMOs and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2011 the carrying value of the System's CMO and Asset-Backed Security holdings totaled $97.2 million. The System also invests in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities.

Securities Lending - The System has also entered into agreements for securities lending transactions, which are collateralized in an amount generally valued at 102 percent (105 percent for international securities) of the market value of the securities loaned. All securities and loans can be terminated on demand by either the lender or the borrower.

Cash open collateral is invested in a short-term investment pool, the Core Limited Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2011 all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2010 was $279.7 million and $274.4 million, respectively.

The following table details the System's derivative investments at June 30, 2011:

(Expressed in Thousands)

	2011 Changes in Fair Value	Fair Value at June 30, 2011 Classification	Fair Value at June 30, 2011 Amount	Notional
Futures:				
Equity Index Futures Contracts	$ 538	OSIC*	$ 274	$ 32,546

*OSIC = Obligations to settle investment contracts

NEXTGEN COLLEGE INVESTING PLAN

The Maine College Savings Program Fund (the Fund) doing business as NextGen College Investing Plan (the Program), was established in accordance with Title 20-A MRSA §11473, to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a Qualified State Tuition Program under Section 529 of the Internal Revenue Code.

The statute authorizes the Finance Authority of Maine ("FAME") to administer the Program and act as administrator of the Fund. The Fund is held by the Treasurer of the State who invests it under the direction of and with the advice of a seven member Advisory Committee on College Savings, which is chaired by the Treasurer. See Note 16 for additional information. FAME and the Treasurer have selected Merrill Lynch as the Program Manager. The Program is reported as a private purpose trust fund in the financial statements of the State.

NextGen's investments are comprised of 58 different investment portfolios which are reported at fair value and total $6.0 billion at June 30, 2011.

Custodial Credit Risk – NextGen, in accordance with its Program Description, primarily invests in open-end mutual funds, which, according to GASB Statement No. 40, do not bear custodial credit risk; hence, the Program's exposure to custodial credit risk arising from its investment in mutual funds is considered to be insignificant.

The Program makes some investments in entities which are not mutual funds including a Guaranteed Investment Contract (GIC) issued by Transamerica Life Insurance Company in the Principal Plus Portfolio. Because an investment in a GIC represents a contractual investment rather than a security, it is not deemed to be subject to custodial credit risk.

The Program also invests in the Cash Allocation Account (the Account), a separate account that was established by FAME. All of the Account investments are held in either the name of the Account or the Account Agent's name, thereby minimizing the custodial credit risk.

Credit Risk - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2011 was $239.4 million.

The assets of the Account are invested in a portfolio of high-quality, short-term money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, other short-term debt securities issued by U.S. and foreign entities, and repurchase agreements. In addition, the Account invests in certificates of deposit

issued by Maine financial institutions in accordance with instructions of FAME and the Treasurer. All Maine Certificate of Deposit's are FDIC insured or fully collateralized. The value of the Account at June 30, 2011 was $247.0 million.

Concentration of Credit Risk – The Program has not established an investment policy that specifically limits its exposure to concentration of credit risk because the Program principally invests in mutual funds which have been excluded by GASB Statement No. 40 from its concentration of disclosure risk requirements.

Interest Rate Risk – The Program has not established an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account all invest in securities that are subject to interest rate risk.

Market values of the above-mentioned investments are presented below (in thousands):

	Fair Value
Principal Plus Portfolio	$ 239,366
Cash Allocation Account	247,026
Fixed Income Securities	1,607,862
Total Fair Value	$2,094,254

COMPONENT UNITS

Generally, component unit investment policies authorize investments in obligations of U.S. Treasury and Agency Securities, repurchase agreements, corporate bonds, certificates of deposit and money market funds. Some component units may invest in stocks, bonds, fixed income securities, mutual funds, commingled mutual funds and index funds, guaranteed investment contracts, real estate and other investment securities.

Certain component units also invest in the Treasurer's Cash Pool and comprise approximately 20 percent of pool assets. The component units reported their participation as either Cash and Cash Equivalents or Investments on their financial statements. The State reclassified $108.9 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes $5.8 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements as invested in the Treasurer's Cash Pool.

NOTE 6 - RECEIVABLES

Receivable balances are segregated by type, and presented in the fund financial statements net of allowance for uncollectibles. The following tables disaggregate amounts considered to be uncollectible by fund and type of receivable as of the close of the fiscal year:

Primary Government – Receivables
(Expressed in Thousands)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$552,469	$118,854	$1	($168,352)	$502,972
Highway	35,345	2,460	35	(10,540)	27,300
Federal	-	92,142	-	(23,050)	69,092
Other Special Revenue	9,690	76,218	5,044	(9,164)	81,788
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	597,504	289,674	5,080	(211,106)	681,152
Allowance for Uncollectibles	(132,512)	(78,447)	(147)		
Net Receivables	$464,992	$211,227	$4,933		$681,152
Proprietary Funds:					
Employment Security	$ -	$48,982	$ -	($13,709)	$35,273
Nonmajor Enterprise	-	26,638	-	(1,005)	25,633
Internal Service	-	525	-	-	525
Total Proprietary Funds	-	76,145	-	(14,714)	61,431
Allowance for Uncollectibles	-	(14,714)	-		
Net Receivables	$ -	$ 61,431	$ -		$61,431

Component Units – Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$632	$ -	$31,019	($5,267)	$26,384
Maine Community College System	9,784	-	-	(1,035)	8,749
Maine Health and Educational Facilities Authority	2,297	1,216,848	-	(525)	1,218,620
Maine Municipal Bond Bank	1,187	-	-	-	1,187
Maine State Housing Authority	22,840	1,389,159	803	(10,792)	1,402,010
University of Maine System	51,201	-	41,304	(6,384)	86,121

NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivables and payables represent amounts owed to one State fund by another, for goods sold or services received, or for borrowings to eliminate negative balances in the Treasurer's Cash Pool.

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2011 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 16,630	$ -	$ -
Highway	1	1	-	-	-
Federal	60	3	218	370	-
Other Special Revenue	79,397	163	256	258	40
Other Governmental	-	-	3	-	-
Employment Security	-	-	13	-	-
Non-Major Enterprise	1,220	1,073	12	25	-
Internal Service	9,662	2,958	4,083	3,341	-
Fiduciary	21,520	-	-	-	-
Total	$ 111,860	$ 4,198	$ 21,215	$ 3,994	$ 40

Due from Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 3,920	$ 5,509	$ -	$ 26,059
Highway	-	-	-	-	2
Federal	-	-	1	-	652
Other Special Revenue	-	20	57	-	80,191
Other Governmental	-	-	-	-	3
Employment Security	-	-	-	-	13
Non-Major Enterprise	-	186	-	-	2,516
Internal Service	-	246	710	9	21,009
Fiduciary	-	-	-	-	21,520
Total	$ -	$ 4,372	$ 6,277	$ 9	$ 151,965

Not included in the table above are interfund loans/advances, which are not expected to be repaid within one year. Postal, Printing & Supply (an internal service fund) owes $111 thousand to the General Fund for operating capital.

The more significant balance included in Due to/Due from other funds is $65 million due to the Other Special Revenue Fund related to the General Fund's negative cash position in the Treasurer's Cash Pool. This type of temporary loan is typical; cash is frequently borrowed and returned depending on cash flow needs.

Transfers are made in accordance with statutory authority. Significant transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move

receipts restricted to debt service from the funds collecting the receipts to the funds required to pay debt service as principal and interest payments come due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

During fiscal year 2011, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The Medical Care Services Federal Expenditures Fund transferred $29.7 million to the unappropriated surplus of the General Fund for the federal disallowance related to targeted case management services provided in 2002 and 2003.

The Other Special Revenue Fund transferred $18.2 million to the unappropriated surplus of the General Fund.

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ 154	$ 36,033	$ 69,669	$ -
Highway	1,806	-	8,250	1,941	-
Federal	75	-	-	17,609	-
Other Special Revenue	151,078	5,764	17,348	-	2,042
Other Governmental Funds	-	-	-	-	1,660
Employment Security	-	-	-	-	-
Non-Major Enterprise	3,100	3,600	-	177	-
Internal Service	11,215	-	-	-	-
Fiduciary	-	-	-	-	729
Total	$ 167,274	$ 9,518	$ 61,631	$ 89,396	$ 4,431

	Transferred From				
Transferred To	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 49,581	$ 331	$ 24,027	$ 179,795
Highway	-	-	705	-	12,702
Federal	1,337	-	670	-	19,691
Other Special Revenue	-	4,687	237	675	181,831
Other Governmental Funds	-	-	-	-	1,660
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	-	185	-	7,062
Internal Service	-	-	350	-	11,565
Fiduciary	-	-	-	-	729
Total	$ 1,337	$ 54,268	$ 2,478	$ 24,702	$ 415,035

NOTE 8 - CAPITAL ASSETS

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2011:

Primary Government – Capital Assets
(Expressed in Thousands)

	Beginning Balance	Increases and Other Additions	Decreases and Other Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 473,464	$ 17,610	$ 2,877	$ 488,197
Construction in progress	90,974	28,445	-	119,419
Infrastructure	3,600,246	214,220	-	3,814,466
Total capital assets not being depreciated	4,164,684	260,275	2,877	4,422,082
Capital assets being depreciated:				
Buildings	589,375	8,657	5,089	592,943
Equipment	254,744	13,832	14,184	254,392
Improvements other than buildings	19,576	26	-	19,602
Total capital assets being depreciated	863,695	22,515	19,273	866,937
Less accumulated depreciation for:				
Buildings	228,757	15,995	5,162	239,590
Equipment	169,699	17,552	12,389	174,862
Improvements other than buildings	11,780	1,109	-	12,889
Total accumulated depreciation	410,236	34,656	17,551	427,341
Total capital assets being depreciated, net	453,459	(12,141)	1,722	439,596
Governmental Activities Capital Assets, net	$ 4,618,143	$ 248,134	$ 4,599	$ 4,861,678

	Beginning Balance	Net Additions	Net Deletions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 43,076	$ 15,825	$ 13	$ 58,888
Construction in progress	8,789	23,235	-	32,024
Total capital assets not being depreciated	51,865	39,060	13	90,912
Capital assets being depreciated:				
Buildings	8,465	984	-	9,449
Equipment	49,548	18,026	537	67,037
Improvements other than buildings	74,572	5,610	16,840	63,342
Total capital assets being depreciated	132,585	24,620	17,377	139,828
Less accumulated depreciation for:				
Buildings	5,651	269	-	5,920
Equipment	44,628	5,482	507	49,603
Improvements other than buildings	36,536	2,075	9,751	28,860
Total accumulated depreciation	86,815	7,826	10,258	84,383
Total capital assets being depreciated, net	45,770	16,794	7,119	55,445
Business-Type Activities Capital Assets, net	$ 97,635	$ 55,854	$ 7,132	$ 146,357

During the fiscal year, depreciation expense was charged to the following functions in the governmental activities column of the Statement of Activities for the primary government:

Governmental Activities – Depreciation Expense
(Expressed in Thousands)

	Amount
Governmental Activities:	
Arts, Heritage and Cultural Enrichment	$ 17
Business Licensing and Regulation	355
Economic Development and Workforce Training	1,068
Education	329
Governmental Support and Operations	5,138
Health and Human Services	5,501
Justice and Protection	10,466
Natural Resources Development and Protection	3,907
Transportation Safety and Development	7,875
Total Depreciation Expense – Governmental Activities	$ 34,656

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTIONS

The Maine Public Employees Retirement System, formerly named the Maine State Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423, and 425. The System provides pension, disability, and death benefits to its members, which includes employees of the State, public school employees (defined by Maine law as teachers and for whom the State is the employer for retirement contribution and benefit purposes, or SETP) and employees of 314 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2011 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Maine Public Employees Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering an agent, multiple-employer plan for financial reporting purposes. The statements include $2.1 billion of assets related to the PLD's. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

The total funds managed by the System are constitutionally restricted and held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan.

The System administers three defined contribution plans for employees of PLD's that elect to participate. At June 30, 2011, there were 51 employers participating in these plans. The 742 participants individually direct the $14.4 million in assets covered by the plans.

The System also provides group life insurance under a plan administered by a third party insurance company and invests long-term assets for the Retiree Health Insurance Post-Employment Benefits Investment Trust Fund. Note 10 provides for further disclosure.

BASIS OF ACCOUNTING

The System's financial statements are prepared on the accrual basis of accounting. Pension contributions are recognized as additions in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized when earned. Contributions to defined contribution plans are recognized in the period they are contributed. Pension benefits and contributions and premium refunds are recognized as deductions when due and payable in accordance with Statutes. Benefits payable incurred but not reported are reflected as other liabilities. Distributions from defined contribution plans are recognized in the period the disbursement is made.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

CONTRIBUTION INFORMATION

Membership in each defined benefit plan consisted of the following at June 30, 2011:

	State Employees and Teachers Plan	Consolidated Plan for PLD
Active vested and nonvested members	38,991	10,629
Terminated vested participants	7,278	1,259
Retirees and benefit recipients	29,107	7,610
Total	75,376	19,498
Number of participating employers/sponsors	1	313

Contributions from members and employers and earnings from investments fund retirement benefits. Employer contributions and investment earnings fund disability and death benefits. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by biennial actuarial valuations.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 5 percent.

STATE EMPLOYEES AND TEACHERS PENSION PLAN SPECIFICS

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Through June 30, 2010, normal retirement age is age 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993 (effective October 1, 1999, the prior 10 year requirement was reduced to 5 years by legislative action). For members with fewer than 5 years of creditable service on July 1, 2011, normal retirement age is 65. The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

PARTICIPATING LOCAL DISTRICTS PLAN SPECIFICS

In the event that a PLD withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The PLD remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members; and for those active employees, whether or not vested, who remain contributing System members.

SPECIAL FUNDING SITUATION – TEACHERS DEFINED BENEFIT PENSION PLAN

The State is legally responsible for contributions to the Teacher Group that covers retirees of other governmental entities. The State is the sole "employer" contributor for the teachers; therefore, is acting as the employer.

FUNDED STATUS AND FUNDING PROGRESS – DEFINED BENEFIT PENSION PLANS

The funded status of each plan as of June 30, 2011, the most recent biennial actuarial valuation date, is as follows:

(Expressed in Thousands)

Plans	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
SETP	8,795,250	11,335,259	2,540,009	77.6%	1,652,576	153.7%
PLD's	2,119,466	2,267,575	148,109	93.5%	436,015	34.0%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. Additional information as of the latest actuarial valuation date follows:

	SETP		PLD's	
Valuation date	June 30, 2011		June 30, 2011	
Actuarial cost method	Entry age		Entry age	
Amortization method	Level percent closed		Level dollar open	
Remaining amortization period	17	1	15	
Asset valuation method	3-Year smoothed market		3-Year smoothed market	
Actuarial assumptions:				
Investment rate of return	7.25%		7.25%	
Projected salary increases	3.50%	2	3.50% - 9.50%	
Includes inflation at	3.50%		3.50%	
Cost of living adjustments	2.55%	4	3.12%	
Most recent review of plan experience:	2010	3	2008	3
Former actuarial assumptions:				
Investment rate of return	7.75%		7.75%	
Projected salary increases	4.75% - 10.00%		4.50% - 10.50%	
Includes inflation at	4.50%		4.50%	
Cost of living adjustments	3.75%		3.75%	

[1] The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2010 was determined by the 2008 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 6 years remained at June 30, 2011

[2] The.projected rate of salary increases include a 3.5% across-the-board increase at each year of service with a revised merit scale of up to 10.5% for State Employees and 13.5% for Teachers. The first 2 fiscal years assume a flat 1.5% pay increase across the board.

[3] The assumptions were adopted by the Trustees as a result of the latest experience study review performed in 2011 and covering the period July 1, 2005 through June 30, 2010.

[4] The cap on annual COLA was lowered from 4.0% per year to 3.0% per year on the first $20,000 of annual benefit (indexed). No COLA will be made until September 2014.

CONTRIBUTION RATES – DEFINED BENEFIT PENSION PLANS

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, based upon certain assumptions, are expressed as percentages of annual covered payroll and are sufficient to accumulate adequate assets to pay benefits when due.

In order to reduce any unfunded pension liability for State employees and teachers under Title 5 MRSA § 1536, the State is required to remit 20 percent of its General Fund unappropriated surplus to the System at year-end. For fiscal 2011, the amount due was $5.9 million.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 2011 for participating entities:

State	
Employees [1]	7.65 - 8.65%
Employer [1]	14.12 - 54.49%
Teachers	
Employees	7.65%
Employer	17.28%
Participating Local Entities	
Employees [1]	3.0 - 8%
Employer [1]	1.9 - 8.1%

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees and/or, in the case of participating local districts (PLDs), on benefit plan options selected by a particular participating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

ANNUAL PENSION COST AND NET PENSION OBLIGATION

The State is one of several employers whose employees are System members. The State's net pension obligation shown at the end of the year includes the pension liability related to its employees. It does not include the pension liability related to PLD's. The State's annual pension cost and net pension obligation to the System for the current year were:

Net Pension Obligation
(Expressed in Thousands)

Annual required contribution	$ 328,075
Interest on net pension obligation	608
Adjustment to annual required contribution	(556)
Annual pension cost	328,127
Contributions made	333,944
Increase (decrease) in net pension obligation	(5,817)
Net pension obligation beginning of year	7,845
Net pension obligation end of year	$ 2,028

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2011	328,127	101.77%	2,028
2010	318,171	103.47%	7,845
2009	320,285	99.93%	18,881

Employer contributions met actuarially determined contribution requirements.

COMPONENT UNIT PARTICIPANTS

The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine Public Employees Retirement System have defined benefit pension plans. All are participating local entity participants in plans administered by the Maine Public Employees Retirement System. For financial reporting purposes, employees of the Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, and the Northern New

England Passenger Rail Authority are combined with State employees for retirement benefit purposes and are included in the pension disclosures of the State.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

POST RETIREMENT HEALTHCARE PLANS

The State sponsors and contributes to two defined benefit healthcare plans: a sole employer plan for its employees, and county and municipal law enforcement officers and firefighters (First Responders). Each plan provides medical benefits to eligible retired employees and beneficiaries. Statute prescribes what portion of health insurance costs are funded by the State. The State also agreed to fund a set percentage of retiree healthcare costs for teachers. Statute prescribes what portion of health insurance costs are funded by the State.

The State of Maine funds post retirement health care benefits for most retired State employees and legislators, as authorized by Title 5 MRSA § 285, and for a portion of the premiums for teachers, as authorized by Title 20-A MRSA § 13451. Pursuant to Title 5 MRSA § 285 most retired employees of the Maine Turnpike Authority, Maine Community College System, Maine Maritime Academy, Maine Public Employees Retirement System, and Maine Educational Center for the Deaf and Hard of Hearing are eligible to participate in the health plan but are not funded by the State. Specifically excluded (Title 5 MRSA § 285 1-B) are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities and their instrumentalities, except as provided in subsection 11-A. Title 5 MRSA § 286-M included retired county or municipal law enforcement officers and municipal firefighters, as defined in subsection 286-M, who participate in an employer-sponsored retirement plan and, prior to July 1, 2007 were enrolled in a self-insured health benefits plan offered by the employing county or municipality.

The State pays 100 percent of post retirement health insurance premiums for state employee retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Per Title 5 MRSA § 285 paragraphs 2 and 3, coverage depends upon terms and conditions contained in collective bargaining agreements with the State Health Commission. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. Retirees must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees ineligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse.

Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent of the retiree-only premium. The rate is based on a single rate for single and employee plus children coverage, or 50 percent of the two party rate for two party and family coverage.

For State employees and Teachers, other options exist. Part-time employees are eligible for prorated benefits with retirees who worked 50 percent or more of full-time hours receiving 100 percent of the benefit. Surviving spouses and dependents may continue in the plan and pay 100 percent of the premium. Retirees ineligible for a State contribution are allowed to participate and pay the retiree premium.

County and municipal law enforcement officers and municipal firefighters began coverage in Fiscal Year 2008 with the State contributing 45 percent of the retiree-only premium of their respective plans. The State's premium subsidy is based on the Title 5 MRSA § 285 paragraph 11-A C cost of the retiree's share of the individual premium for the standard plan identified and offered under the group health insurance plan in which the retiree enrolls. The State subsidy ends after the retiree is eligible for Medicare. First Responders are eligible if they retire after age 50 with 25 or more years of service and receive a retirement benefit from either the MPERS or a defined contribution plan. If retirees have fewer than 25 years of service, the normal retirement benefit must be at

least 50 percent of final average compensation. Retirees must also participate in their employer's health insurance plan or other fully insured health plan for at least 5 years. Retirees can elect to participate in the plan at their retirement date. If participation is waived at that time, the retiree is ineligible to participate at a later date.

The State also administers a fourth defined benefit healthcare plan, (Ancillary Group Plan), which covers two non-major discretely presented component units. Under the Ancillary Group Plan, the State acts as the plan administrator only.

Beginning in the fiscal year ending June 30, 2008, each participating employer is required by GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

PLAN MEMBERSHIP

Membership in the four healthcare plans is as follows:

	State Employees	Teachers	First Responders	Ancillary Groups
Actives	12,720	27,159	912	67
Retirees	8,920	9,381	69	11
Total	21,640	36,540	981	78
Number of employers	1			2
Contributing entities		1	1	2

STATE EMPLOYEES PLAN FUNDING POLICY

Title 5 MRSA § 286-B authorized an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or less from July 1, 2007.

Public Law 2007, Chapter 240, amended Title 5 Chapter 421 by establishing the Irrevocable Trust for Other Post-employment Benefits. MPERS holds and invests long-term funds in the irrevocable trust fund. Its fiduciary responsibilities include setting investment policy in order to fund the plan in accordance with a projected disbursement schedule that does not begin before the year 2027.

TEACHERS PLAN AND FIRST RESPONDERS PLAN FUNDING

A special funding situation exists for these plans. The State is statutorily responsible for contributions to the Teachers Plan and the First Responders Plan that cover the retirees of other governmental entities. The State is the sole contributing entity for Teachers and the primary contributing entity for the First Responders, therefore, making the contribution on behalf of the employing jurisdictions at a 45 percent level for the current portion of the health plan costs and are not included in the Trust.

Public Law 2011, Chapter 380 Pt. Y § 2 established separate Irrevocable Trust Funds for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust funds. Annually, beginning with the fiscal year starting July 1, 2011, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability for eligible

first responders in 30 years or less from July 1, 2007. Annually, beginning with the fiscal year starting July 1, 2013, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability at June 30, 2006 for eligible teachers in 30 years or less from July 1, 2007.

No implied subsidy is calculated for either plan. The State does not pay for any of the costs of active employees. The State limited its contribution to 45 percent of the retiree-only premium.

ANCILLARY GROUP PLAN

The following plan, administered by the State, is financially independent and is not included in the State Retiree Health Internal Service Fund. This multiple-employer agent postemployment benefit plan covers 11 retirees of 2 non-major component units: Maine Educational Center for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. All active employees participate in the State Employee Group Health Insurance Plan. All eligible retired employees who elect coverage are included in this plan. The State Employee Health Commission establishes premiums annually.

ANNUAL OPEB COST

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	**Teachers**	**First Responders**
Annual required contribution	$ 120,000	$ 61,000	$ 916
Interest on net OPEB obligation	-	5,000	113
Adjustment to annual required contribution	(1,000)	(8,000)	(184)
Annual OPEB cost	$ 119,000	$ 58,000	$ 845
Contributions made	85,000	18,000	523
Increase (decrease) in net healthcare obligation	34,000	40,000	322
Net healthcare obligation beginning of year	8,228	106,956	2,516
Net healthcare obligation end of year	$ 42,228	$ 146,956	$ 2,838

The annual OPEB cost for the current year, the percentage of annual OPEB cost contributed to the plan, and the net OPEB (asset) obligation for each plan are as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset	Net OPEB Obligation
State Employees	6/30/2011	119,000	71.43%		42,228
	6/30/2010	92,000	59.78%		8,228
	6/30/2009	77,000	65.43%	28,772	
Teachers	6/30/2011	58,000	31.03%		146,956
	6/30/2010	56,000	33.93%		106,956
	6/30/2009	60,000	30.65%		69,956
First Responders	6/30/2011	845	61.89%		2,838
	6/30/2010	1,051	35.01%		2,516
	6/30/2009	1,045	24.69%		1,833

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plans as of June 30, 2011 was as follows:

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees (in millions)	June 30, 2011	111	1,544	1,433	7.19%	567	252.73%
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
	June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
Teachers (in millions)	June 30, 2011	0	806	806	0.00%	1,098	73.41%
	June 30, 2010	0	1,005	1,005	0.00%	1,064	94.45%
	June 30, 2009	0	994	994	0.00%	1,215	81.81%
First Responders (in thousands)	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%
	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%
	June 30, 2008	0	19,806	19,806	0.00%	51,021	38.82%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	State Employees	Teachers	First Responders
Valuation date	March 31, 2011	March 31, 2011	June 30, 2010
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period - UAAL	26	26	27
Plan changes	30-year fixed [1]	30-year fixed [1]	20-year fixed
Actuarial (gains) /losses	10-year fixed	15-year fixed	rolling 15 year period
Asset valuation method	investment gains and losses spread over a 5 - year period no less than 80% nor more than 120% of market value	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.00% 7.25% ultimate	4.00% 7.25% ultimate	4.50%
Projected salary increases	3.25%	3.25%	3.75%
Inflation rate	3.00%	3.00%	3.75%
Healthcare inflation rate	initial - actual premiums [2] ultimate 5.00%	initial - actual premiums [2] ultimate 5.00%	8.00% [2] ultimate 5.00%
Former actuarial assumptions:			
Plan changes	30-year fixed	30-year fixed	20-year fixed
Asset valuation method	market value	n/a	n/a
Investment rate of return	4.80% 7.50% ultimate	4.50%	4.50%
Healthcare inflation rate	ultimate 4.5%	ultimate 4.5%	ultimate 4.5%

[1] Initial UAAL and plan changes are amortized over a 30 year period from 6/30/07.

[2] Healthcare cost assumptions for the first 2 fiscal years include no increase in non-Medicare costs.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State's fiduciary financial statements are prepared on the accrual basis of accounting. Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense. Investment income is recognized when earned.

CONTRIBUTIONS AND RESERVES

The State Employees Health Insurance Committee establishes contributions to the plan by member employers and employees annually. Both active and retired members pay the same premium rate. Claims liabilities of the plan

are periodically computed using statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

POST RETIREMENT GROUP LIFE INSURANCE BENEFIT PLAN

The Maine Public Employees Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit Group Life Insurance Plan (GLIP) administered by a third party insurance company in accordance with Title 5 MRSA C. 423 and 425. Members include employees of the State, public school employees (defined by Maine law as teachers and for whom the State acts like the employer for retirement contribution and benefit purposes), members of the Judiciary and the Legislature, that are eligible for membership in the System. Group life insurance benefits are also provided to employees of 324 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine that elect to participate under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2011 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Plan provides Basic group life insurance benefits, during retirement, to retirees who participated in the group life insurance plan prior to retirement for a minimum of 10 years. The 10 year participation requirement does not apply to recipients of disability retirement benefits. The level of coverage in retirement is initially set to an amount equal to the retiree's average final compensation. The initial amount of Basic group life insurance benefit is then subsequently reduced at the rate of 15% per year to the greater of 40% of the initial amount or $2,500.

Group life insurance funds managed by the System are constitutionally restricted and held in trust for the payment of benefits to participants or their beneficiaries. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs a single actuarial valuation that provides separate data for each participating entity.

BASIS OF ACCOUNTING

The System's financial statements are prepared on the accrual basis of accounting. Premiums paid, by or on behalf of those covered, are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company for premiums collected plus additional payments representing administrative fees.

Group life insurance premiums are recognized as additions in the period when they become due. Investment income is recognized when earned. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Group life insurance benefits and premium refunds are recognized as deductions when due and payable in accordance with Statutes. In addition, an estimate is made for group life insurance death benefits incurred before year end but not reported to the System until after year end. Group life insurance death benefits incurred but not reported are reflected as other liabilities.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the

funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

FUNDING POLICY

Premium rates are those determined by the System's Board of Trustees to be actuarially sufficient to pay anticipated claims and cover administrative costs. For State employee, legislative and judicial classes, the premiums for retiree life insurance coverage are factored into the premiums paid for Basic coverage while participants are active members. The State remits premiums at a single rate that supports basic coverage for active and retired State employees. This rate is $.56 per month for every $1,000 of coverage. Premiums for retiree life insurance coverage for retired teachers are paid by the State based on a rate of $.33 per $1,000 of coverage per month during the post-employment retirement period.

ANNUAL OPEB COST

The State's OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Analysis of Funding Progress

(Expressed in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Net OPEB Asset	Percentage of OPEB Cost Contributed
June 30, 2011	$ 6,800	$ 6,339	$ 300	93.22%
June 30, 2010	6,800	6,361	761	93.54%
June 30, 2009	5,700	12,377	1,200	217.14%

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of June 30, 2011 was as follows:

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
	June 30, 2009	17,500	67,900	50,400	25.77%	601,099	8.38%
Teachers	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%
	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%
	June 30, 2009	17,700	54,700	37,000	32.36%	591,100	6.26%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about

whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS
Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Valuation date	June 30, 2011	
Actuarial cost method	Entry age normal	
Amortization method	Level percent open	
Asset valuation method	market	
Actuarial assumptions:		
Investment rate of return	7.25%	
Projected salary increases	3.50% - 10.50%	1
Cost of living increases in life benefits	N/A	
Participation percent for future retirees	100.00%	
Form of benefit payment	lump sum	
Former actuarial assumptions:		
Investment rate of return	7.75%	
Projected salary increases	4.75% - 10.00%	

[1] Until fiscal year 2012 the average projected salary increase of 3.5% has been decreased to 1.5%.

NOTE 11 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT
The State records its liability for general obligation bonds in the Governmental Activities column on the Statement of Net Assets. Other long-term obligations recognized by the State include: revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit; obligations under Certificates of Participation and other financing arrangements; loans payable to component unit for repayment of bonds issued by the Maine Municipal Bond Bank on behalf of the Maine Department of Transportation; compensated employee absences; and the State's net pension obligation; other post-employment benefits; and obligations for pollution remediation.

GENERAL OBLIGATION BONDS
Programs for which the State issues general obligation bonds include: adaptive equipment loan programs; environmental cleanup and protection; highway and transportation related projects; agricultural and small business job creation; and acquisition, construction, and renovation of major capital facilities including State parks and historic sites. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues and are repaid in annual installments beginning not more than one year after issuance.

Changes in general obligation bonds of the primary government during fiscal year 2011 were:

Primary Government - Changes in General Obligation Bonds
(Expressed in Thousands)

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
General Obligation Debt:					
General Fund	$ 365,775	$ 86,010	$ 72,905	$ 378,880	$ 81,055
Special Revenue Fund	134,325	22,125	15,100	141,350	16,385
Total	$ 500,100	$ 108,135	$ 88,005	$ 520,230	$ 97,440

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2011 until maturity, are summarized in the following table:

Future Debt Service on General Obligation Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2012	$ 97,440	$ 19,714	$ 117,154
2013	95,700	16,514	112,214
2014	78,740	13,182	91,922
2015	64,910	10,412	75,322
2016	49,600	7,990	57,590
2017 - 2021	133,840	13,213	147,053
Total	$ 520,230	$ 81,025	$ 601,255

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2011 are as follows:

Primary Government – General Obligation Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2011	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
General Fund:					
Series 2002	$ 27,610	$ 2,760	2003	2012	3.00% - 5.75%
Series 2003	97,080	19,410	2003	2013	1.50% - 5.00%
Series 2004	117,275	32,600	2005	2014	2.00% - 5.27%
Series 2005	137,525	61,230	2006	2015	2.00% - 5.27%
Series 2006	52,390	26,185	2007	2016	4.00% - 5.51%
Series 2007	33,975	20,370	2008	2017	4.00% - 5.50%
Series 2008	46,525	32,560	2009	2018	3.00% - 5.13%
Series 2009	96,035	70,030	2011	2019	2.50% - 5.00%
Series 2010	31,755	27,725	2011	2020	1.41% - 4.00%
Series 2011	86,010	86,010	2012	2021	1.625% - 5.00%
Total General Fund		$ 378,880			
Special Revenue Fund:					
Series 2004	$ 13,000	$ 3,625	2005	2014	2.00% - 4.00%
Series 2007	27,000	16,200	2008	2017	4.00% - 5.50%
Series 2008	57,550	40,285	2009	2018	3.00% - 5.13%
Series 2009	37,310	36,640	2011	2019	2.50% - 5.00%
Series 2010	25,080	22,475	2011	2020	1.41% - 4.00%
Series 2011	22,125	22,125	2012	2021	1.625% - 5.00%
Total Special Revenue		$ 141,350			

AUTHORIZED UNISSUED BONDS

Any bonds not issued within five years of the date of ratification may not be issued after that date. Within two years after expiration of the five-year period, the Legislature may extend, by a majority vote, the five-year period for an additional five years or may deauthorize the bonds. If the Legislature fails to take action within those two years, the bond issue shall be considered to be deauthorized and no further bonds may be issued. At June 30, 2011, general obligations bonds authorized and unissued totaled $96.5 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included $172.2 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of $325.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2011, MGFA did not issue any bonds. At June 30, 2011, there were approximately $20.7 million of MGFA in-substance defeased bonds outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance construction of certain State buildings, to purchase or generate software, and to purchase equipment and vehicles, including school buses. COP's are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State and school districts maintain custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid.

Neither COP's nor the other financing arrangements constitute a legal debt, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

SHORT TERM OBLIGATIONS

The State of Maine issued and retired $68.5 million in Bond Anticipation Notes during fiscal year 2011. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2011 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

OTHER LONG-TERM OBLIGATIONS

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Assets, the State has recorded long-term obligations for its compensated employee absences, net pension obligation, other post-employment benefit obligations, and pollution remediation.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2011, are summarized as follows:

Primary Government - Changes in Other Long-Term Obligations
(Expressed in Thousands)

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 189,080	$ -	$ 16,930	$ 172,150	$ 17,285
COP's and Other Financing	76,291	26,572	31,033	71,830	25,541
Compensated Absences	45,788	5,135	4,480	46,443	4,545
Claims Payable	58,288	169,779	165,198	62,869	27,006
Capital Leases	33,329	5,245	4,884	33,690	5,881
Loans Payable to Component Unit	258,394	51,709	19,184	290,919	21,276
Net Pension Obligation	7,845	328,127	333,944	2,028	-
Other Post-Employment Benefit Obligation	117,700	172,960	100,038	190,622	-
Pollution Remediation	50,028		10,423	39,605	-
Total Governmental Activities	$ 836,743	$ 759,527	$ 686,114	$ 910,156	$ 101,534
Business-Type Activities:					
Compensated Absences	$ 808	$ 127	$ 52	$ 883	$ 59
Other Post-Employment Benefit Obligation	-	4,885	3,485	1,400	-
Total Business-Type Activities	$ 808	$ 5,012	$ 3,537	$ 2,283	$ 59

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2011 until maturity, are summarized as follows:

Future Debt Service on MGFA Revenue Bonds, COP's and Other Financing Arrangements
(Expressed in Thousands)

	Governmental Funds			Internal Service Funds		
Fiscal Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2012	$ 13,184	$ 70	$ 13,254	$ 29,642	$ 8,339	$ 37,981
2013	10,873	20	10,893	31,382	7,307	38,689
2014	606	6	612	26,990	6,200	33,190
2015	-	-	-	21,520	5,271	26,791
2016	-	-	-	19,432	4,431	23,863
2017 - 2021	-	-	-	66,411	11,643	78,054
2022 - 2026	-	-	-	15,680	3,640	19,320
2027 - 2030	-	-	-	8,260	628	8,888
Total	$ 24,663	$ 96	$ 24,759	$ 219,317	$ 47,459	$ 266,776

CONDUIT DEBT OBLIGATIONS

Under a General Bond Resolution adopted on June 5, 1973, Maine Health and Higher Educational Facilities Authority (MHHEFA) issues tax exempt bonds to assist in financing health care institutions and institutions for higher education. Loans to institutions made with proceeds of general resolution bonds are written for the entire amount of the bonds, including debt service reserve funds. Security for these bonds is limited to debt service reserve funds of and the loans to the specific institution for which the bond was issued. Therefore, these bonds are considered conduit debt.

LOANS PAYABLE TO COMPONENT UNIT

The State of Maine has pledged various revenue streams, as security for Grant Anticipation Bonds (GARVEE) and Transportation Infrastructure Revenue Bonds (TransCap) issued by the Maine Municipal Bond Bank (MMBB) on behalf of the Maine Department of Transportation to provide financing for qualified transportation projects.

Changes in GARVEE and TransCap revenue bonds during fiscal year 2011 were:

Primary Government - Changes in GARVEE and TransCap Revenue Bonds
(Expressed in Thousands)

	Balance July 1, 2010	**Additions**	**Retirements**	**Balance June 30, 2011**	**Due Within One Year**
Loans Payable to Component Unit:					
Federal Funds	$ 76,578	$ 51,710	$ 8,942	$ 119,346	$ 11,094
Special Revenue Fund	181,816	-	10,243	171,573	10,182
Total	$ 258,394	$ 51,710	$ 19,185	$ 290,919	$ 21,276

Payment of principal and interest on the GARVEE bonds shall be subject to appropriation each year by the Legislature in an amount sufficient to cover the principal and interest requirements of MMBB's debt for these bonds. The State's receipt of these funds is subject to continuing federal appropriations. MMBB insured payments of principal and interest with a financial guaranty insurance policy. The bonds do not constitute a debt or obligation of the State.

Principal and interest on TransCap bonds are payable solely from pledged revenues, pledged rights, and pledged TransCap funds and accounts. Pledged revenues include certain motor vehicle registration and other fees, a portion of excise tax on gasoline and other special fuel, and certain amounts required to be transferred from the Highway Fund. All pledged revenues are required to be transferred to the TransCap Fund. The bonds do not constitute a debt or liability of the State.

GARVEE and TransCap Revenue bonds issued and outstanding at June 30, 2011 are as follows:

GARVEE and TransCap Revenue Bonds Outstanding
(Expressed in Thousands)

			Fiscal Year Maturities		
	Amounts Issued	Outstanding June 30, 2011	First Year	Last Year	Interest Rates
Federal Funds:					
Series 2004	$ 48,395	$ 24,525	2005	2015	2.50% - 5.00%
Series 2008	50,000	43,075	2009	2020	3.25% - 4.00%
Series 2010A	25,915	25,915	2011	2017	2.00% - 5.00%
Series 2010B	24,085	24,085	2018	2022	4.52% - 5.32%
Total Federal Funds		$ 117,600			
Special Revenue Fund:					
Series 2008	$ 50,000	$ 45,455	2009	2023	3.00% - 5.50%
Series 2009A	105,000	99,285	2010	2023	2.50% - 5.00%
Series 2009B	30,000	29,185	2010	2024	2.00% - 5.00%
Total Special Revenue		$ 173,925			

Total principal and interest requirements over the life of the 2004 GARVEE bonds are $60.2 million, with annual requirements of up to $5.6 million; for the 2008 GARVEE bonds total principal and interest requirements are $63.1 million, with annual requirements of up to $5.3 million; for 2010 GARVEE bonds total principal and interest requirements are $66.3 million, with annual requirements of up to $5.3 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the 2004 GARVEE bonds totaled $175 million. Total federal highway transportation funds received in federal fiscal year 2011 were $186.3 million. Current year payments to MMBB for GARVEE bonds were $11.2 million (6.0 percent of federal highway transportation funds received).

Total principal and interest requirements over the life of the 2008 TransCap Revenue Bond are $71.9 million, with annual requirements up to $4.8 million. Total principal and interest requirements over the life of the 2009A TransCap Revenue Bonds are $144.3 million, with annual requirements up to $10.1 million; for the 2009B TransCap Revenue Bonds total principal and interest requirements are $46.2 million, with annual requirements up to $16.9 million. Total revenue received for revenue sources used as pledged revenues were $38.1 million in fiscal year 2011.

OBLIGATIONS UNDER CAPITAL LEASES

The State leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below.

At June 30, 2011 capital assets include $72.6 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $43.3 million.

OBLIGATIONS UNDER OPERATING LEASES

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements. Rental expense incurred under operating leases totaled $2.0 million during the year.

A summary of the operating and noncancelable capital lease commitments to maturity follows:

Future Minimum Lease Payments
Capital and Operating Leases
(Expressed in Thousands)

Fiscal Year	Capital Leases	Operating Leases
2012	$ 5,881	$ 2,471
2013	5,158	2,312
2014	4,522	2,214
2015	4,114	1,945
2016	3,625	1,450
2017 - 2021	12,860	4,878
2022 - 2026	4,083	652
2027 - 2031	299	345
2032 - 2036	-	349
2037 - 2041	-	397
2042- 2046	-	453
2047 - 2050	-	390
Total Minimum Payments	40,542	$ 17,856
Less: Amount Representing Interest	6,852	
Present Value of Future Minimum Payments	$ 33,690	

MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS

MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for loans payable to component unit will be liquidated from the Federal Fund and Highway Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded; the General and Highway Funds will pay relatively small amounts.

CLAIMS PAYABLE

Claims payable that represent Medicaid claims will be paid from the General Fund and Federal Fund. Claims payable that represent workers' compensation and retiree/employee health will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. Other claims and judgments attributable to governmental activities will be liquidated by the General Fund and related special revenue funds.

COMPENSATED ABSENCES

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as long-term liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments made to terminated employees as of June 30, 2011 but paid after the fiscal year end is also reported in the funds.

COMPONENT UNITS

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State. The following table summarizes bonds outstanding for selected material balances of discretely presented component units, as reported in their separately issued financial statements, utilizing their respective fiscal year-ends:

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	1.00%	1,568	2011 – 2025
Maine Community College System	3.0 - 5.0%	24,654	2011 - 2037
Maine Health and Higher Educational Facilities Authority			
debt	2.0 - 6.2%	1,339,530	2011 - 2040
conduit debt	4.5- 7.3%	148,345	2011 - 2043
Maine Municipal Bond Bank	.7 - 6.1%	1,594,487	2011 – 2041
Maine State Housing Authority	0.0 - 5.75%	1,473,876	2011 – 2042
University of Maine System	2.0 - 5.75%	193,107	2011 – 2037

On March 17, 2011 FAME sold its portfolio of federal student loans under the Higher Education Loan Purchase Program. The aggregate principal amount at June 30, 2010 was $166.8 million. On the sale date, the outstanding aggregate loan principal had been reduced to $149.8 million. This transaction resulted in a loss on sale of loans of $7.0 million. The proceeds from the sale of loans, combined with Program cash on hand and a contribution of funds from the bond issuer of $5.2 million were used to fully redeem at par the $172.0 million 2003, 2005 and 2007 Series auction rate bonds and accrued interest outstanding, all of which were secured by the loans sold. Redemption of bonds occurred on scheduled auction dates from March 24, 2011 through April 21, 2011. The bond redemption resulted in a net loss of $.4 million.

MHHEFA advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future payment on the debt. At June 30, 2011, there were approximately $123.4 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund resolution. At June 30, 2011, there were approximately $13.3 million of defeased bonds outstanding with respect to advance refunded bond issues of the general resolution. The general resolution bonds are considered conduit debt.

Prior to July 1, 2007, UMS advance refunded various bond obligations. Proceeds were primarily used to purchase U.S. Government securities that will provide for future debt service payment on the debt. At June 30, 2011, all refunded bonds are considered defeased.

In periods of declining interest rates, MMBB has refunded its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. On October 7, 2010 MMBB issued $99.4 million of General Tax-Exempt Bonds with an average interest rate of 4.47 percent to in-substance defease $99.8 million of various outstanding bonds. At June 30, 2011 the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately $149 million.

For the period ended December 31, 2010, MSHA redeemed $196.8 million of its Mortgage Purchase Fund Group bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds and $7.2 million of its Housing Finance Revenue Fund Group bonds from subsidy funds. Mortgage Purchase Fund losses of $1.2 million and Housing Finance Revenue Fund Group losses of $55 thousand were attributable to recognition of the bond discount and debt issuance expenses associated with the redeemed bonds.

The following table summarizes debt service requirements for outstanding bonds of the discretely presented component units:

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	FAME	MMBB	MCCS	MSHA	UMS	MHHEFA
2012	$ 805	$ 122,048	$ 54	$ 16,195	$ 39,430	$ 52,300
2013	56	126,161	600	44,680	7,620	56,805
2014	57	119,549	622	45,160	7,962	57,310
2015	57	116,055	649	51,575	9,990	59,540
2016	57	109,307	671	53,585	6,343	55,285
2017 - 2021	298	482,543	3,787	273,110	35,154	286,135
2022 - 2026	238	321,200	4,746	296,150	32,665	280,300
2027 - 2031	-	145,785	5,863	289,240	33,100	244,410
2032 - 2036	-	23,835	6,967	241,470	18,645	172,985
2037 - 2041	-	2,500	-	159,925	552	74,460
2042 - 2046	-	195	-	15,925	-	-
Net unamortized premium or (deferred amount)	-	25,309	695	(13,139)	1,646	-
Total Principal Payments	$ 1,568	$ 1,594,487	$ 24,654	$ 1,473,876	$ 193,107	$ 1,339,530

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

The State maintains several types of insurance plans and accounts for them in two funds that are combined for financial statement purposes as the Risk Management Fund. The Risk Management Division provides insurance advice and services to State governmental agencies. The State-Administered Fund offers similar services to quasi-governmental entities. Statute requires the Self-Insurance Fund to be replenished by appropriation if the fund balance drops below $1 million. The State-Administered Fund balance has no similar provision; however, statutes prevent it from being used for any purpose other than providing insurance services.

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professionals, and a variety of other insurance products. All departments have elected to insure through the Risk Management Division. The Department of Transportation elected to purchase general liability insurance as of April 1, 2007; in prior fiscal years the Department of Transportation had elected not to purchase general liability insurance through the Risk Management Division.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $400 million per occurrence. The State retains $2 million of this risk per occurrence. A private insurance carrier covers the remaining risk (excess insurance). Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

Type of Insurance	Coverage Per Occurrence	Risk Retention Per Occurrence	Excess Insurance Per Occurrence
Property *	$400 million	$ 2 million	$400 million
Ocean Marine Boat Liability *, [1]	10 million	10 thousand	10 million
Boiler and Machinery*	150 million	2 million	150 million
General Liability Including Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none
Vehicular Liability [2]	400 thousand	400 thousand	600 thousand
Bonding	500 thousand	500 thousand	none
Foster Parents	300 thousand	300 thousand	none
Inland Marine (various policies)	500 thousand	500 thousand	none

* These lines of insurance have commercial excess insurance covering losses above the risk retention amount up to the per occurrence amount listed. All other insurance programs are wholly self-insured.
[1] $10 million is the maximum limit for per occurrence coverage. Some agencies have chosen $400 thousand.
[2] Excess insurance is only for out of state travel.

The plan funds the cost of providing claims servicing and claims payment by charging a premium to each agency based on a review of past losses and estimated losses for the current period.

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of March 31, 2010. This cost of claims includes case reserves, the development of known claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis. Biennial re-evaluation occurs to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

At March 31, 2011 and 2010, the present value of the claims payable for the State's self-insurance plan was estimated at $3.8 million and $3.8 million, respectively. The actuary calculated this based on the State's rate on investments.

Risk Management Fund
Changes in Claims Payable
(Expressed in Thousands)

	2011	2010
Liability at Beginning of Year	$ 3,872	$ 3,525
Current Year Claims and		
Changes in Estimates	86	1,062
Claims Payments	86	715
Liability at End of Year	$ 3,872	$ 3,872

As of June 30, 2011, fund assets of $23.4 million exceeded fund liabilities of $4.3 million by $19.1 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added $50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400 thousand. The effect of this change has been partially incorporated into the estimate used to determine claims payable as of June 30, 2011.

B. UNEMPLOYMENT INSURANCE

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $2.1 million for the fiscal year ended June 30, 2011.

C. WORKERS' COMPENSATION

Workers' Compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation.

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The balance of claims liabilities as of June 30, 2011:

Workers' Compensation Fund
Changes in Claims Payable
(Expressed in Thousands)

	2011	2010
Liability at Beginning of Year	$ 38,673	$ 38,673
Current Year Claims and		
Changes in Estimates	8,987	8,961
Claims Payments	8,378	8,961
Liability at End of Year	$ 39,282	$ 38,673

Based on the actuarial calculation as of June 30, 2010, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $46.1 million. The discounted amount is $39.3 million and was calculated based on a 3.5 percent interest rate on investments.

D. Employee Health Insurance

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self insured for employee and retiree health care coverage on July 1, 2003. A stop loss agreement with Anthem Blue Cross and Blue Shield provides catastrophic coverage for individual claims exceeding $500 thousand.

The State retained third-party administration (TPA) services for claims administration, utilization review, and case management services. Premium equivalents are paid to the TPA based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. Smart Value is a Medicare Advantage plan available to Medicare eligible retirees. Total enrollment averaged approximately 40,500 covered individuals. This total includes 29,000 active employees and dependents, 4,500 pre-Medicare retirees and dependents, and 7,000 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2011, the State recorded a payable of $3.4 million for an underpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $19.7 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2011 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 11,965	$ 3,778
Current Year Claims and		
Changes in Estimates	142,343	18,363
Claims Payments	139,522	17,212
Liability at End of Year	$ 14,786	$ 4,929

The table above reflects actual activity of the employee health and retiree health insurance programs. In accordance with GASB Statement No. 45, certain costs reported above were reclassified for financial statement purposes. $48.5 million in retiree healthcare costs were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $22.0 million of active employee healthcare costs was reclassified from the internal service fund to the OPEB Trust Fund to reflect age-adjusted claims.

NOTE 13 – JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The State of Maine participates in two separate joint venture arrangements: the Tri-State Lotto Commission (Commission) and the Multi-State Lottery Association (MUSL).

Tri-State Lotto Commission

The Commission was established in 1985 pursuant to passage into law of the Tri-State Lotto Compact by the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including ticket prices, prizes, and the licensing of agents under Title 8 MRSA C. 16.

The Commission is composed of one member from each of the participating states. Each member State’s commission appoints one of its members to serve on the Commission and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members. The Commission designated that 50 percent of its sales revenue be reserved for prize awards and agent bonuses.

A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not claimed within one year from the date of the drawing be forfeited. All expired unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on ticket sales made by each State. Exceptions are the facility's management fee, which is based on a contracted percentage of operating revenue that varies from State to State, per diem charges, advertising, and certain printing, travel, and miscellaneous costs, which are allocated based on actual charges generated by each state.

The Tri-State Lotto Commission financial report for fiscal year 2011, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

Tri-State Lotto Commission
(Expressed in Thousands)

Current Assets	$	21,827
Noncurrent Assets		52,098
Total Assets	$	73,925
Current Liabilities	$	18,035
Long-term Liabilities		43,287
Total Liabilities		61,322
Designated Prize Reserves		4,346
Reserve for Unrealized Gains		8,257
Total Net Assets		12,603
Total Liabilities and Net Assets	$	73,925
Total Revenue	$	68,179
Total Expenses		45,353
Allocation to Member States		22,826
Change in Unrealized Gain on Investments Held for Resale		(2,433)
Change in Net Assets	$	(2,433)

Multi-State Lottery Association

The Maine State Lottery became a member of the Multi-State Lottery Association (MUSL) in July 2004. The MUSL currently has 32 member State lotteries, including the District of Columbia and the United States Virgin Islands. The MUSL is managed by a board of directors, which is comprised of the lottery directors or their designee from each of the party States, and authorized to initiate, promulgate, administer and carry out one or more lottery product offerings that will enhance the participating party lottery's revenue.

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the board are divided equally among all of the participating lotteries. Jackpot prizes payable in installments are satisfied through investments purchased by the MUSL. The MUSL purchases US government obligations which are held in irrevocable trusts established by the MUSL for the benefit of participating State lotteries. Each week the MUSL allocates 50 percent of sales to the prize pool. If no winning ticket is selected, the available jackpot is carried over to the following jackpot drawing.

The Multi-State Lottery Association's financial report for fiscal year 2011, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected information:

Multi-State Lottery Association
(Expressed in Thousands)

Cash and Cash Equivalents	$ 86,328
Investments in US Government Securities	158,285
US Government Securities Held for Prize Annuities	374,246
Due from Party Lotteries	21,436
Other Assets	1,140
Total Assets	$ 641,435
Amount Held for Future Prizes	$ 246,048
Grand Prize Annuities Payable	392,972
Other Liabilities	2,174
	641,194
Net Assets, Unrestricted	241
Total Liabilities and Net Assets	$ 641,435
Total Revenue	$ 4,101
Total Expenses	4,364
Excess of revenue over expenses	(263)
Net assets, beginning	504
Net assets, ending	$ 241

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

Title 20-A MRSA § 11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code.

By statute, program assets are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. NextGen had approximately $6.0 billion in net assets at June 30, 2011, which have been recorded in a Private Purpose Trust Fund on the financial statements of the State. Also see Note 16 for additional information.

The State of Maine entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Public Lands and the Bureau of Parks and Recreation. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated May 1991.

COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $237.3 million; Maine Community College System, $65.7 million; Maine Municipal Bond Bank, $41.1 million; Finance Authority of Maine, $16.8 million; and Maine State Housing Authority, $5.5 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $29.6 million at June 30, 2011, as a liability in Amounts Held Under State Revolving Loan Programs in their fiduciary financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2011, the State expended $8.2 million to FAME for State revolving loan funds. The State also transferred $1 million from its Loan Insurance Reserves to FAME.

Title 20-A MRSA Chapter 419-A established the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2007, the NextGen College Savings grant funds and the Maine State Grant funds were pooled into the new State of Maine Grant. FAME paid approximately $6.5 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

RELATED ORGANIZATIONS

The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature defined operating surplus within the Maine Turnpike Authority statute to be the total operating revenues of the Authority after money has been set aside to pay reasonable operating expenses and to meet the requirements of any resolution authorizing bonds. The Authority, with the concurrence of the Maine Department of Transportation, established the operating surplus at $4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 2010.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

PRIMARY GOVERNMENT

LITIGATION

The State of Maine, its units, and its employees are parties to numerous legal proceedings, many of which are the result of normal governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. Certain cases have the potential for liability in excess of $1 million. Even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, the State could incur a large judgment.

In various lawsuits, Plaintiffs seek damages in excess of $1 million against the State or against State officials, and various notices of claim also specify damages in excess of $1 million where no lawsuit has been filed. In none of

these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed $1 million. Therefore, these suits have not been individually identified.

Numerous workers' compensation claims are now pending against various State agencies. Since most claims involve the possibility for significant long-term damages, and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

FEDERAL GRANTS

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

POLLUTION REMEDIATION

The Department of Environmental Protection (DEP) and Department of Transportation (DOT) have pollution remediation obligations as defined by Governmental Accounting Standards Board (GASB) Statement No. 49. The State's total amount of pollution remediation obligation as of June 30, 2011 is $39.6 million. Superfund sites account for approximately $30.4 million. Superfund is the federal government program to clean up hazardous waste sites.

The following are Superfund sites for which the State has recorded a liability for pollution remediation activities:

Eastland Woolen Mill – The State recorded a liability for pollution remediation activities of approximately $1.7 million. Currently the State shares the costs with Environmental Protection Agency (EPA) in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in September of 2018, the State will assume 100 percent of the operation, maintenance and long-term monitoring costs.

Eastern Surplus – The State recorded a liability for pollution remediation activities of approximately $23.2 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in August of 2012, the State will assume 100 percent of the operation, maintenance and monitoring costs. As of June 30, 2011 the State has received $2.2 million in recoveries from the Department of Defense. The State expects to recover additional costs of $18.2 million.

Callahan Mine – The State recorded a liability for pollution remediation activities of approximately $5.5 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. The State will assume 100 percent of the cost for the operation and maintenance of the site.

The State recorded a liability for pollution remediation activities of approximately $9.2 million (net of unrealized recoveries of $4 million) related to four of five uncontrolled hazardous substance sites. The State expects to recover $752 thousand in costs. The Uncontrolled Hazardous Substance Sites Program was created in response to the threats and potential threats to human health and the environment posed primarily by abandoned hazardous waste sites. The Uncontrolled Hazardous Substance Sites program is the State's equivalent to the Federal Superfund Program.

The State has the knowledge and expertise to estimate the remediation obligation based on prior experience in identifying and funding similar remediation activities. The standard requires the liability to be measured using the expected cash flow technique. The remediation obligation estimates are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statues or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State’s obligation.

MUNICIPAL SOLID WASTE LANDFILLS

Title 38 MRSA §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost-sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for landfill remediation projects totaled $14 thousand for fiscal year 2011.

During the 2011 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills, except the Commissioner may make grants or payments up to 30 percent, if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. No additional cost share eligible closures have been approved by DEP. Consequently, the DEP expects no further expenditures for municipal landfill closures.

During the 2011 fiscal year, the State expended $9 thousand of general obligation bond funds and $3 thousand in solid waste funds were expended for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue for 90 percent of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50 percent for structures constructed after that date. The DEP recognizes that, in the future, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs could be as much as $1.5 million, based on current site knowledge, the increasing frequency of residential development near closed municipal landfills, and the discovery of older abandoned dump sites now occupied by residential homes. The DEP currently owes $2.6 million for recent remedial work related to issues involving gas migration from two municipal landfills in the state. The existing municipal landfill bond account has been spent. No bond funds are currently available to cover outstanding obligations. Additional bond funds will be necessary to cover current outstanding obligations as well as potential future remedial actions.

SAND AND SALT STORAGE PROGRAM

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the Sand and Salt Storage program to be $18.3 million. This consists of approximately $12.3 million for State-owned facilities and approximately $6 million for the State’s share, under a cost-sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 MRSA § 411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2011 fiscal year, $5.55 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2011, amounts encumbered for pollution abatement projects totaled $3.77 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $3.69 million. As of June 30, 2011, DEP estimated the total cost (federal, State, and local) of future projects to be $1 billion.

GROUND WATER OIL CLEAN-UP FUND

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA § 569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for cleanup of oil spills. The program is funded by a per barrel assessment on petroleum products imported into the State. Coverage is up to $1 million per occurrence for both aboveground and underground storage tanks. Third party injury coverage may not exceed $200 thousand per claimant.

A report to the legislature dated February 15, 2007, submitted by the Maine Department of Environmental Protection (DEP), identified 359 long-term remediation sites as of January 2007 that are covered by the insurance program. As of August 28, 2007 there were 377 sites on the long-term remediation priority list. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes 45.84 percent of the annual payments. As of June 30, 2011, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $1.2 billion.

At June 30, 2011, the Department of Transportation had contractual commitments of approximately $34.6 million for construction of various highway projects. The State's share of that amount is expected to be approximately $11.1 million. Of these amounts, $1.6 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and six civil jurisdictions (collectively known under the MSA as the "Settling States"), entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM's). The MSA is a settlement of lawsuits brought by many States against the four largest tobacco companies alleging multiple counts of misconduct and claiming punitive and compensatory damages, including a claim for all the State's Medicaid costs caused by or related to tobacco use. The MSA includes provisions to annually compensate the State for smoking-related Medicaid costs and to impose marketing and advertising restrictions on PM's to protect public health. In this settlement, the PM's agreed, among other things, to make annual payments to the states and jurisdictions based on their allocable share of the market. In return, the states agreed to relinquish claims to further damages resulting from, among other things, Medicaid costs. Annual payments fluctuate subject to various adjustments and are partially contingent on the passage and enforcement of a State statute imposing economic conditions related to the State's public health claims on the Nonparticipating manufacturers (NPM's) in the form of an annual escrow payment due from each NPM with in-state sales. The NPM Adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's claim an NPM Adjustment for a given year and prove that they lost market share to the NPM's and it is determined that the MSA was a significant factor contributing to that lost market share then an NPM Adjustment 'shall apply' unless a Settling State passed a qualifying statute and 'diligently enforced' that statute. In effect this means that the Allocated Payment to a Settling State that diligently enforced will not be reduced, but a Settling State that did not diligently enforce its qualifying statute will be subject to a reduction in its payment due to the NPM Adjustment. Due to the provisions of the MSA, a State that is found not to have diligently enforced its qualifying statute may lose up to its entire annual payment amount due to the NPM Adjustment for a given year.

The NPM Adjustment may be claimed each year and has been claimed for each completed calendar year since 2003. Frequently PM's claim entitlement to the NPM Adjustment and either withhold the amount from their annual payments, or place the amount in what is known as a 'disputed payment account'. Each year beginning in 2003 Maine's annual payments have been lower than calculated because many of the PM's have claimed entitlement to the NPM Adjustment and either withheld money or routed it to the disputed payments account. For the year 2003, the Adjustment claimed by the PM's, and calculated as set forth in the MSA, was approximately 18

percent of the total amount paid by the PM's and distributed among the Settling States. However, the total amount related to the NPM Adjustment to which the PMs are entitled is dependent on the number of non-diligent states.

In addition, in the MSA, the PM's agreed to pay $8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine's share of this total amount is approximately $114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2011, Maine received a total of $50 million including both the annual payment amount and the strategic contribution amount.

ESCHEAT PROPERTY

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds $500 thousand at fiscal year-end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2011, the Fund included $5.4 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2011 of approximately $142.4 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2011, the amount reported in the Fund for claimant liability is $27.4 million. The General Fund shows a $21.5 million payable to the Escheat Fund.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2011, loans outstanding pursuant to these authorizations are $48 million, less than $1 million, and less than $1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2011.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. At June 30, 2011, no bonds were outstanding. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2011.

MORAL OBLIGATIONS

The State of Maine, through statute, enables certain Authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the Authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the Authority to issue debt that is not secured by these funds.

On or before December first of each year, the Authority is required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The Governor shall

certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then-current State fiscal year.

These moral obligations are not considered to be "full faith and credit" obligations of the State, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.

The following summarizes information regarding outstanding moral obligations:

Moral Obligation Bonds
(Expressed in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Maine Health and Higher Educational				
Facilities Authority - debt	$ 1,339,530	$ 109,183	no limit	22 MRSA § 2075
conduit debt	148,345		no limit	22 MRSA § 2075
Finance Authority of Maine	45,543	-	$ 474,165	10 MRSA §1032, 1053**
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority *	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,255,794	139,732	no limit	30-A MRSA §6006
Maine Educational Loan Authority *	171,975	13,991	225,000	20-A MRSA §11424
Maine State Housing Authority	1,437,415	95,073	2,150,000	30-A MRSA §4906
University of Maine System	191,436	2,870	220,000	20-A MRSA §10952
Total	$ 4,590,038	$ 360,849		

* Reported in combining non-major component unit financial statements.
** See Note 16 for additional information.

COMPONENT UNITS
NURSING HOME LOANS
In 1994, the Maine Department of Human Services substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy created cash flow problems.

MHHEFA advanced approximately $354 thousand from the operating fund as of June 30, 2011 to other financially troubled institutions, with combined loan amounts due the Authority of approximately $8.8 million at June 30, 2011, including loans of $8.5 million reserved at June 30, 2011. These advances were primarily made to assist these institutions in meeting debt service requirements in years prior to fiscal 2011. MHHEFA also has approximately $.4 million of other receivables outstanding with the operating fund at June 30, 2011, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf. MHHEFA established a $.5 million reserve in its operating fund related to the above loans, advances and other receivables outstanding.

CONSTRUCTION CONTRACTS
At June 30, 2011, UMS had outstanding commitments on uncompleted construction contracts that totaled $19.1 million.

MORTGAGE COMMITMENTS

Mortgage commitments are agreements to lend provided there is no violation of any term or condition of the agreement. Generally, once exercised, the loans made under the terms of such commitments are secured by a lien on the related property and other collateral as deemed necessary. At December 31, 2010, Maine State Housing Authority (MSHA) had outstanding commitments to originate multi-family loans of approximately $83.2 million.

MSHA, under its single-family program, enters into purchase agreements to lenders to purchase mortgage loans. At December 31, 2010, single-family loans being processed by lenders totaled $25 million.

NOTE 16 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On September 16, 2011, the State entered an agreement with Katahdin Paper Company (KPC) to acquire the Dolby Landfills, a solid waste disposal facility, located in the Town's of Millinocket and East Millinocket. The State, as the holder of the permits, is responsible for closure and post closure monitoring and maintenance activities and costs.

Pursuant to a change in Maine law which becomes effective September 28, 2011, Section 1 subsection 6A of 1053 of Title 10 MRSA expanded the projects subject to the State's moral obligation with FAME. As a result, moral obligations totaling $12.2 million at June 30, 2011 for electric rate stabilization projects or loans for energy distribution systems increased to $330.0 million.

COMPONENT UNITS

On February 1, 2011, the Maine State Housing Authority (MSHA) redeemed at par $9.8 million of its 1999 through 2001 General Mortgage Purchase Fund bonds.

In July 2011, the U.S. government made the first of two transfers that will give Maine Community College System (MCCS) title to approximately 20 acres of land and 5 buildings located on the site of the former Brunswick Naval Air Station. MCCS received indemnification for any environmental liabilities that might be associated with the property. This property will be used for classrooms and resident halls as part of the Southern Maine Community College. MCCS is insuring the property at a value of $20 million but has not yet determined its fair value.

Pursuant to a change in Maine law which becomes effective September 28, 2011, Chapter 417-E of Title 20-A MRSA is amended to reflect that beginning July 1, 2012, the NextGen College Savings Program Fund will be held by FAME, which shall invest it under the direction of and with the advice of the Advisory Committee on College Savings. Until then, the Program Fund will continue to be held by the State Treasurer. Once the law becomes effective, FAME will report the $6.0 billion in assets in an agency fund.

NOTE 17 – SPECIAL ITEM

Title 5 MRSA § 286-B, as amended by PL 2009, c. 213, Pt. N, §1 authorized an Irrevocable Trust Fund for Other Post-employment Benefits (OPEB Trust). The purpose of accumulating assets in this investment trust fund is to provide funding of the State's unfunded liability obligations for retiree health benefits. Funds appropriated for the irrevocable trust must be held in trust and must be invested or disbursed for the exclusive purpose of providing for retiree health benefits and may not be encumbered for, or diverted to, other purposes. Funds appropriated for the irrevocable trust fund may not be diverted or deappropriated by any subsequent action. On January 21, 2008, the State transferred an initial $100 million to the OPEB Trust managed by Maine Public Employees Retirement System. During the current fiscal year, the State transferred $14.4 million from the Retiree Health Insurance Internal Service Fund to the OPEB Trust. The transfer is treated as a special item in the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets.

Pursuant to Public Law 2009, Chapter 372 Section C-2, the Efficiency Maine program was transferred from the State, Maine Public Utilities Commission (MPUC), to a new discrete non-major component unit named Efficiency Maine Trust (EMT). Effective July 1, 2010, EMT assumed responsibility for administering all non-transportation related energy efficiency programs for the State. The State transferred program balances totaling $22.5 million to EMT. This transfer is recorded as a Special Item in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances

During the fiscal year, the State transferred $7.1 million of assets associated with Estes Head Cargo Pier from the Marine Ports enterprise fund to the Eastport Port Authority, part of the City of Eastport, Maine. The transfer is recorded as a Special Item in the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets.

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues								
Taxes	$ 2,636,564	$ 2,769,783	$ 2,817,476	$ 47,693	$ 214,526	$ 215,546	$ 217,035	$ 1,489
Assessments and Other	106,676	106,721	107,457	736	84,362	84,550	86,320	1,770
Federal Grants	10,493	10,655	11,832	1,177	-	-	-	-
Service Charges	58,819	50,753	46,206	(4,547)	4,328	4,343	5,797	1,454
Income from Investments	275	245	328	83	32	120	125	5
Miscellaneous Revenue	38,212	43,391	15,719	(27,672)	100	100	955	855
Total Revenues	2,851,039	2,981,548	2,999,018	17,470	303,348	304,659	310,232	5,573
Expenditures								
Governmental Support and Operations	250,436	244,874	234,222	10,652	37,010	36,244	3,227	33,017
Economic Development & Workforce Training	36,056	35,799	34,495	1,304	-	-	-	-
Education	1,396,452	1,401,706	1,387,720	13,986	-	-	-	-
Health and Human Services	697,815	887,726	845,417	42,309	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	67,059	66,530	64,864	1,666	34	34	33	1
Justice and Protection	272,763	275,072	268,880	6,192	30,698	30,440	29,262	1,178
Arts, Heritage & Cultural Enrichment	7,302	7,210	7,078	132	-	-	-	-
Transportation Safety & Development	7,000	7,000	7,000	-	235,145	308,187	295,073	13,114
Total Expenditures	2,734,883	2,925,917	2,849,676	76,241	302,887	374,905	327,595	47,310
Revenues Over (Under) Expenditures	116,156	55,631	149,342	93,711	461	(70,246)	(17,363)	52,883
Other Financing Sources (Uses)								
Operating Transfers Net	(76,223)	(84,713)	(79,597)	5,116	(2,046)	(2,134)	3,184	5,318
Proceeds from Pledged Future Revenues	-	-	-	-	-	-	-	-
Net Other Financing Sources (Uses)	(76,223)	(84,713)	(79,597)	5,116	(2,046)	(2,134)	3,184	5,318
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 39,933	$ (29,082)	$ 69,745	$ 98,827	$ (1,585)	$ (72,380)	$ (14,179)	$ 58,201
Fund Balances at Beginning of Year (As Restated)			126,401				77,556	
Fund Balances at End of Year			$ 196,146				$ 63,377	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 236,047	$ 233,746	$ 253,174	$ 19,428
10	10	3	(7)	148,662	156,595	119,531	(37,064)
2,893,117	3,686,813	3,053,164	(633,649)	24,068	44,704	9,959	(34,745)
1,059	1,349	883	(466)	147,386	164,888	150,954	(13,934)
17	17	33	16	1,912	1,919	438	(1,481)
2,437	2,455	423	(2,032)	253,132	222,073	160,143	(61,930)
2,896,640	3,690,644	3,054,506	(636,138)	811,207	823,925	694,199	(129,726)
9,407	33,550	22,956	10,594	122,689	136,898	121,105	15,793
127,749	353,539	287,104	66,435	67,580	84,314	60,205	24,109
257,240	364,897	309,293	55,604	8,358	23,557	12,312	11,245
2,155,967	2,445,739	2,091,679	354,060	527,686	556,219	411,040	145,179
7,569	1,677	528	1,149	115,655	81,275	65,253	16,022
50,450	82,096	42,131	39,965	125,731	145,064	92,240	52,824
123,189	140,400	58,914	81,486	43,404	50,532	36,014	14,518
3,161	4,849	2,714	2,135	1,572	1,804	832	972
194,165	262,931	214,237	48,694	91,164	128,186	87,933	40,253
2,928,897	3,689,678	3,029,556	660,122	1,103,839	1,207,849	886,934	320,915
(32,257)	966	24,950	23,984	(292,632)	(383,924)	(192,735)	191,189
(34,100)	(34,542)	(22,747)	11,795	203,614	214,407	180,524	(33,883)
-	-	-	-	98,139	134,639	75,263	(59,376)
(34,100)	(34,542)	(22,747)	11,795	301,753	349,046	255,787	(93,259)
$ (66,357)	$ (33,576)	$ 2,203	$ 35,779	$ 9,121	$ (34,878)	$ 63,052	$ 97,930
		(11,817)				157,402	
		$ (9,614)				$ 220,454	

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 196,146	$ 63,377	$ (9,614)	$ 220,454
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	260,950	3,573	-	8,180
Intergovernmental Receivables	-	-	494,027	-
Other Receivables	38,007	2,376	66,404	62,899
Inventories	1,294	-	831	-
Due from Component Units	-	-	-	40,467
Due from Other Funds	13,829	4,130	3,416	163,591
Other Assets	2,550	1	335	313
Deferred Revenues	(233,491)	(9,123)	(2,660)	(25,449)
Total Revenue Accruals/Adjustments	83,139	957	562,353	250,001
Expenditure Accruals/Adjustments:				
Accounts Payable	(252,715)	(20,641)	(437,409)	(28,051)
Due to Component Units	(7,804)	(47)	(7,338)	(549)
Bonds Issued	-	-	-	-
Accrued Liabilities	(18,574)	(7,650)	(6,066)	(7,201)
Taxes Payable	(159,958)	(6)	-	-
Intergovernmental Payables	(29,736)	-	(66,157)	-
Due to Other Funds	(46,867)	(4,198)	(11,350)	(34,862)
Total Expenditure Accruals/Adjustments	(515,654)	(32,542)	(528,320)	(70,663)
Fund Balances - GAAP Basis	$ (236,369)	$ 31,792	$ 24,419	$ 399,792

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING

Statutory/Budgetary Presentation

In accordance with statute, the Governor presents a biennial budget for the General Fund and special revenue funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

Once passed and signed, the budget becomes the financial plan for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. The State Budget Officer is required to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund budgets.

Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Detailed budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2011, the legislature deappropriated $27.4 million of original appropriations for the General Fund.

Governmental funds use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation.. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. In the State's accounting system, amounts carried forward are shown as reservations of fund balance. For financial statement purposes unless amounts would create deficits, encumbrances outstanding at June 30 are shown as restrictions, commitments or assignments of fund balance.

The State's budget is prepared primarily on a cash basis. Sales, income, corporate and fuel taxes include a modified accrual basis adjustment to recognize revenues that are expected to be collected within 60 days of the end of the fiscal year.

The Budgetary Comparison Schedule is presented as Required Supplementary Information (RSI) in this report. Actual amounts in this schedule are presented on a budgetary basis. Because this basis differs from accounting principles generally accepted in the United States of America (GAAP), a reconciliation between the budgetary and GAAP basis is presented in the RSI.

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most "operating" funds.

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2010-2011, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of May 28, 2009, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column. Therefore updated revenue estimates available for appropriations as of June 30, 2011 rather than the amounts shown in the original budget, are reported.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, approved transfers, and executive order reductions. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by policy area rather than being reported by character and function as shown in the GAAP statements. This policy area classification is used to better reflect organizational responsibility and to be more consistent with the budget process.

Compliance at the Legal Level of Budgetary Control

The Budgetary Comparison Schedules by Agency depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds. The schedules provide further detail at the agency level within departments for transparency.

Restatement

The beginning fund balance for the Highway Fund decreased by $77 million to adjust for working capital advances recorded in the fund to account for contributions to Internal Service Funds. This restatement is only necessary for the Budgetary Comparison Schedule, since appropriate adjustments were made in the GAAP statements.

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

(Expressed in Thousands)

Actuarial Valuation June 30,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
2011	8,795,250	11,335,259	2,540,009	77.6%	1,652,576	153.7%
2010	8,369,772	12,676,367	4,306,595	66.0%	1,681,593	256.1%
2009	8,383,148	12,377,262	3,994,114	67.7%	1,678,931	237.9%
2008	8,691,076	11,721,272	3,030,196	74.1%	1,628,421	186.1%
2007	8,302,467	11,209,708	2,907,241	74.1%	1,595,200	182.2%
2006	7,556,515	10,598,346	3,041,831	71.3%	1,546,316	196.7%
2005	7,013,846	10,048,588	3,034,742	69.8%	1,516,391	200.1%

Major changes in actuarial assumptions include the following:

Valuation date	June 30, 2011	June 30, 2010	June 30, 2008
Former actuarial assumptions:		No changes	
Investment rate of return	7.25%	were made	7.75%
Projected salary increases	3.50%	to 2008	4.75% - 10.00%
Includes inflation at	3.50%	plan	4.50%
Cost of living adjustments	2.25%	assumptions	3.75%

The June 30, 2011 valuation included changes to the plan and actuarial assumptions. For members with fewer than 5 years of creditable service on July 1, 2011, the normal retirement age increased to 65. Projected salary increases include a 3.5% across the board increase at each year of service with a revised merit scale of up to 10.5% for State Employees and 13.5% for Teachers. The first 2 fiscal years assume a flat 1.5% pay increase across the board. The cap on annual cost of living adjustments was lowered from 4% per year to 3% per year on the first $20,000 of annual benefit (indexed). No COLA will be made until September 2014.

The Maine Public Retirement System (the System), which is a component unit of the State, is the administrator of an agent, multiple-employer, defined benefit public employee retirement system. The June 30, 2011 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2011 was determined by the 2010 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 6 years remained at June 30, 2011.

Note: Unless plan changes occur, actuarial valuations are performed biennially on even years. Rollforward valuations occur on odd numbered years. The latest actuarial valuation occurred June 30, 2011.

Required Supplementary Information – Other Post-employment Benefit Plans

Schedules of Funding Progress

Healthcare Plans

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees (in millions)	June 30, 2011	111	1,544	1,433	7.19%	567	252.73%
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
	June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
Teachers (in millions)	June 30, 2011	0	806	806	0.00%	1,098	73.41%
	June 30, 2010	0	1,005	1,005	0.00%	1,064	94.45%
	June 30, 2009	0	994	994	0.00%	1,215	81.81%
First Responders (in thousands)	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%
	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%
	June 30, 2008	0	19,806	19,806	0.00%	51,021	38.82%

Group Life Insurance Plans

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
	June 30, 2009	17,500	67,900	50,400	25.77%	601,099	8.38%
	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%
Teachers	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%
	June 30, 2009	17,700	54,700	37,000	32.36%	591,100	6.26%

Required Supplementary Information – Other Post-employment Benefit Plans (continued)

Schedule of Employer Contributions
(Expressed in Thousands)

	Employer Contributions							
	State Employees			Teachers			First Responders	
Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed		Annual Required Contribution	Percentage Contributed		Annual Required Contribution	Percentage Contributed
Healthcare - 2011	119,000	71.43%		58,000	31.03%		845	61.89%
Healthcare - 2010	92,000	59.78%		56,000	33.93%		1,051	35.01%
Healthcare - 2009	77,000	65.43%		60,000	30.65%		1,045	24.69%
Group Life - 2011	6,800	93.22%					N/A	N/A
Group Life - 2010	6,800	93.54%					N/A	N/A
Group Life - 2009	5,700	217.14%					N/A	N/A

Required Supplementary Information –
Information about Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include 8,807 highway miles or 17,921 lane miles of roads and 2,960 bridges having a total deck area of 11.7 million square feet that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved at, or above, the established condition level.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Highways

Measurement Scale for Highways

The Maine Department of Transportation (MDOT) uses six indicators to determine the condition of highway adequacy. The six indicators and their relative point weighting are listed in the table below.

Data Element	Point Rating (%)	Description
Pavement Condition Rating (PCR)	45	PCR is defined as the composite condition of the pavement on a roadway only, and is compiled from the severity and extent of pavement distresses such as cracking, rutting and patching. It is the key indicator used to determine the optimum time to treat a particular section of road. Points decrease as PCR decreases.
Safety	20	Statewide crash rates are used to allocate points. Locations with high rates get fewer points.
Backlog (Built v Unbuilt roadway)	15	A "Built" road is one that has been constructed to a modern standard, usually post 1950. This includes adequate drainage, base, and pavement to carry the traffic load, and adequate sight distance and width to meet current safety standards. "Unbuilt" (backlog) is defined as a roadway section that has not been built to modern standards. Yes or No (15 or 0).
Annual Average Daily Traffic divided by the hourly highway capacity (AADT/C)	10	This ratio measures how intensely a highway is utilized. As a highway facility's AADT/C ratio increases, the average speed of vehicles on that facility tends to decrease. This decrease in average speed is evidence of reduced mobility. As congestion increases, points decrease (0-10).
Posted Speed	5	Lower speeds equal fewer points.
Paved Shoulder	5	In general, roadways with paved shoulders perform at a higher level and last longer than those without shoulders or with only gravel shoulders. Yes or No (5 or 0).
	100	

Bridges

MDOT uses four separate factors to obtain a numerical value used to indicate the ability of bridges to remain in service at the current level of usage. The numeric value is a percentage ranging from 0% to represent an entirely insufficient or deficient bridge, and 100% to represent an entirely sufficient bridge. The four indicators and their relative point weighting are listed in the table below. The composite numeric value is based on the sufficiency rating formula in the Recording and Coding Guide for Structure Inventory and Appraisal of the Nation's Bridges.

Data Element	Point Rating (%)	Description
Structural Adequacy and Safety	55	This category considers inventory rating, superstructure, substructure and culverts.
Serviceability and Functional Obsolescence	30	Serviceability and functional obsolescence that addresses the number of lanes, average daily traffic, roadway width, bridge width, deck condition, under clearances, waterway adequacy, alignment, and defense highway designation.
Essentiality for Public Use	15	This considers detour length, average daily traffic, and defense highway designation.
Special Reductions	(13)	The sufficiency rating also includes consideration of special reductions for detour length, safety features, and type of structure.

Assessed Conditions
The following table shows adequacy ratings for maintenance levels from Excellent to Poor.

Adequacy Rating	Total
Excellent	80-100
Good	70-80
Fair	60-70
Poor	0-60

MDOT intends to maintain highways and bridges at an adequacy rating of 60 or higher. The following table shows adequacy ratings achieved by MDOT.

Fiscal Year	Highways	Bridges
2011	74.8	78.0
2010	76.2	79.0
2009	75.3	78.0

Comparison of Estimated-to-Actual Preservation Costs

The following table presents the State's preservation costs for the past five fiscal years. It also shows the estimate of spending necessary to preserve and maintain the roads and bridges at, or above, a sufficiency rating of 60 for both highways and bridges (in millions).

Actual Preservation Costs
(Amounts in millions)

	2011	2010	2009	2008	2007
Highways	$ 101.4	$ 68.6	$ 74.5	$ 80.0	$ 71.7
Bridges	9.3	9.2	1.6	1.6	1.6
Total	**$110.7**	**$77.8**	**$76.1**	**$81.6**	**$73.3**

Estimated Preservation Costs
(Amounts in millions)

	2011	2010	2009	2008	2007
Highways	$ 86.1	$ 48.5	$ 55.8	$ 97.7	$ 59.7
Bridges	7.9	6.5	1.2	2.0	1.3
Total	**$ 94.0**	**$55.0**	**$57.0**	**$99.7**	**$61.0**

Transportation Bonds

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 414, PL 2009, $25 million in Highway fund bonds and $5 million in General fund bonds was spent during FY2011. Of the amount authorized by Chapter 645, PL 2009, $10 million was spent during FY2011.

STATE OF MAINE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2011

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
MARY GINGROW-SHAW, CPA
SINGLE AUDIT COORDINATOR
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDIT AND ADMINISTRATION

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the President of the Senate and the
Speaker of the House of Representatives

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2011, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated December 29, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Child Development Services, ConnectME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and University of Maine System, as described in our report on the State of Maine's financial statements. Also, we did not audit the financial statements of the NextGen College Investing Plan. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority, and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of the State of Maine is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Maine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters which we will report to management in a separate letter.

This report is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Neria R. Douglass, JD, CIA
State Auditor

December 29, 2011

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

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DIRECTOR OF AUDIT AND ADMINISTRATION

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the President of the Senate and the
Speaker of the House of Representatives

Compliance

We have audited the State of Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Maine's major federal programs for the year ended June 30, 2011. The State of Maine's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's basic financial statements include the operations of the following component units: Child Development Services, ConnectME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and University of Maine System. The federal awards that these component units received are not included in the Supplementary Schedule of Expenditures of Federal Awards for the year ended June 30, 2011. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors to perform an audit in accordance with Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Maine's

compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Maine's compliance with those requirements.

As identified below and described in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with compliance requirements that are applicable to the following major programs. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to those programs.

Finding Number	Federal Program Name	Compliance Requirements
11-1200-01	Title 1, Part A Cluster	Cash Management
11-1200-01	Special Education Cluster (Idea)	Cash Management
11-1200-01	Improving Teacher Quality State Grants	Cash Management
11-1203-04	Child Nutrition Cluster	Reporting
11-1302-06	Unemployment Insurance	Eligibility

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Maine complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 11-1103-01, 11-1106-01 through 11-1106-04, 11-1106-07, 11-1106-14, 11-1106-16, 11-1109-01, 11-1114-04, 11-1140-01 and 11-1302-08.

Internal Control Over Compliance

Management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control

over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-1200-01, 11-1203-04, 11-1302-02 and 11-1302-06 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-1106-01 through 11-1106-06, 11-1106-08, 11-1106-10 through 11-1106-14, 11-1106-16, 11-1111-01, 11-1111-02, 11-1114-01, 11-1114-04, 11-1114-05, 11-1128-02 through 11-1128-04, 11-1140-01 through 11-1140-03, 11-1200-03, 11-1200-04, 11-1201-01 through 11-1201-03, 11-1203-03, 11-1221-01, 11-1302-07, 11-1302-08, 11-1308-01 through 11-1308-03, 11-1315-01 through 11-1315-04, 11-1401-01, 11-1401-02, 11-1403-01, 11-1530-01 and 11-1530-03 to be significant deficiencies.

The State of Maine's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Maine's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Neria R. Douglass, JD, CIA
State Auditor

March 30, 2012

STATE OF MAINE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
Department of Agriculture					
Plant and Animal Disease, Pest Control, and Animal Care	10.025	Agriculture	-	922,909	922,909
		Conservation	-	81,471	81,471
		Inland Fisheries	-	43,804	43,804
	10.025 Total		-	1,048,184	1,048,184
Federal-State Marketing Improvement Program	10.156	Agriculture	-	679,393	679,393
Inspection Grading and Standardization	10.162	Agriculture	-	829,224	829,224
Market Protection and Promotion	10.163	Agriculture	-	185,771	185,771
2006: Specialty Crop Block Grant Program	10.169	Agriculture	-	20,561	20,561
Specialty Crop Block Grant Program - Farm Bill	10.170	Agriculture	-	255,582	255,582
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	Agriculture	-	219,390	219,390
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Human Services	-	18,301,464	18,301,464 *
Child and Adult Care Food Program	10.558	Human Services	-	10,301,166	10,301,166
State Administrative Expenses for Child Nutrition	10.560	Education	-	373,077	373,077
		Human Services	-	272,891	272,891
	10.560 Total		-	645,968	645,968
Commodity Supplemental Food Program	10.565	Agriculture	-	123,756	123,756
WIC Farmers' Market Nutrition Program (FMNP)	10.572	Human Services	-	61,368	61,368
Team Nutrition Grants	10.574	Education	-	86,392	86,392
Senior Farmers Market Nutrition Program	10.576	Agriculture	-	1,013,150	1,013,150
WIC Grants To States (WGS)	10.578	Human Services	156,950	-	156,950
Child Nutrition Discretionary Grants Limited Availability	10.579	Education	-	76,036	76,036
		Human Services	-	8,914	8,914
	10.579 Total		-	84,950	84,950
Fresh Fruit and Vegetable Program	10.582	Education	-	1,156,693	1,156,693
Forestry Research	10.652	Conservation	-	312,501	312,501
Cooperative Forestry Assistance	10.664	Conservation	-	2,146,396	2,146,396
Urban and Community Forestry Program	10.675	Conservation	-	229,000	229,000
Forest Legacy Program	10.676	Conservation	-	1,561,172	1,561,172
Forest Stewardship Program	10.678	Conservation	-	214,014	214,014
Recovery Act of 2009: Wildland Fire Management	10.688	Conservation	2,396,195	-	2,396,195
Rural Energy for America Program	10.868	Planning	-	59,856	59,856
Soil and Water Conservation	10.902	Conservation	-	9,500	9,500
Environmental Quality Incentives Program	10.912	Conservation	-	18,362	18,362
Wildlife Habitat Incentive Program	10.914	Inland Fisheries	-	47,003	47,003
Child Nutrition Cluster					
School Breakfast Program	10.553	Corrections	-	123,640	123,640 *
		Education	-	9,056,478	9,056,478 *
	10.553 Total		-	9,180,118	9,180,118 *
National School Lunch Program	10.555	Corrections	-	235,748	235,748 *
		Education	-	33,709,300	33,709,300 *
	10.555 Total		-	33,945,048	33,945,048 *
Special Milk Program for Children	10.556	Education	-	28,122	28,122 *
Summer Food Service Program for Children	10.559	Education	-	1,226,177	1,226,177 *
Child Nutrition Cluster Total			-	44,379,465	44,379,465 *
Emergency Food Assistance Cluster					
Emergency Food Assistance Program (Administrative Costs)	10.568	Agriculture	118,863	177,185	296,048
Emergency Food Assistance Program (Food Commodities)	10.569	Agriculture	-	2,459,457	2,459,457
Emergency Food Assistance Cluster Total			118,863	2,636,642	2,755,505
SNAP Cluster					
Supplemental Nutrition Assistance Program	10.551	Human Services	-	375,063,008	375,063,008 *
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	Human Services	328,750	14,069,441	14,398,191 *
SNAP Cluster Total			328,750	389,132,449	389,461,199 *
Department of Agriculture Total			3,000,758	475,759,372	478,760,130
Department of Commerce					
Interjurisdictional Fisheries Act of 1986	11.407	Marine Resource	-	105,419	105,419
Coastal Zone Management Administration Awards	11.419	Conservation	-	92,152	92,152
		Environment	-	400,515	400,515
		Marine Resource	-	347,388	347,388
		Planning	-	1,416,963	1,416,963
	11.419 Total		-	2,257,018	2,257,018
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	Marine Resource	-	21,965	21,965
Marine Mammal Data Program	11.439	Marine Resource	-	100,817	100,817
Unallied Industry Projects	11.452	Marine Resource	-	1,425,417	1,425,417
Unallied Management Projects	11.454	Marine Resource	-	974,002	974,002
Meteorologic and Hydrologic Modernization Development	11.467	Defense	-	48,594	48,594
Unallied Science Program	11.472	Marine Resource	-	2,287,108	2,287,108
Atlantic Coastal Fisheries Cooperative Management Act	11.474	Marine Resource	-	754,790	754,790
Public Safety Interoperable Communications Grant Program	11.555	Defense	-	1,463,612	1,463,612
		Judicial	-	102,307	102,307
	11.555 Total		-	1,565,919	1,565,919

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Broadband Technology Opportunities Program (BTOP)	11.557	Library	231,629	-	231,629	
State Broadband Data and Development Grant Program	11.558	Planning	35,249	-	35,249	
Access Point Angler Intercept Survey - MACRO, 37555-10S-1482	11.999	Marine Resource	-	16,268	16,268	
American Lobster Ventless Trap Survey, 05-1109		Marine Resource	-	55,150	55,150	
Derelict Lobster Gear Retrieval, Salvage & Disposal (ME), MOU-GOMLF		Marine Resource	-	13,213	13,213	
Exploratory fixed gear survey in the inshore Gulf of maine utilizing trap gear and targeting Atlantic Wolffish, EA133F10CN0075		Marine Resource	-	45,753	45,753	
Joint Enforcement Agreements, 2007 - 2009 JEA		Marine Resource	-	807,567	807,567	
Large Pelagic Intercept Survey DG133F09SE4138, DG133F07CN0228, DG133F09SE1987; DG133F05CN1293		Marine Resource	-	10,866	10,866	
Vertical Line Density Project, EM133F09SE3911		Marine Resource	-	22,622	22,622	
Public Works and Economic Development Cluster						
Economic Adjustment Assistance	11.307	Economic Devel	-	178,947	178,947	
Public Works and Economic Development Cluster Total			-	178,947	178,947	
Department of Commerce Total			266,878	10,691,435	10,958,313	
Department of Defense						
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	Environment	-	449,582	449,582	
National Guard Military Operations and Maintenance (O&M) Projects	12.401	Defense	30,243	64,949,419	64,979,662	*
National Guard ChalleNGe Program	12.404	Defense	-	248,001	248,001	
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	12.607	Governor	-	726,276	726,276	
Cooperative Agreement Dept of USACE	12.999	Marine Resource	-	523	523	
Department of Defense Total			30,243	66,373,801	66,404,044	
Department of Housing and Urban Development						
Manufactured Home Dispute Resolution	14.171	Professional Reg	-	20,646	20,646	
Shelter Plus Care	14.238	Human Services	-	6,553,370	6,553,370	
Fair Housing Assistance Program_State and Local	14.401	Human Rights	-	201,801	201,801	
CDBG - State-Administered CDBG Cluster						
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	Defense	-	56,031	56,031	*
		Economic Devel	-	20,017,032	20,017,032	*
	14.228 Total		-	20,073,063	20,073,063	*
2009: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii – (Recovery Act Funded)	14.255	Economic Devel	1,555,840	-	1,555,840	*
CDBG - State-Administered CDBG Cluster Total			1,555,840	20,073,063	21,628,903	*
Department of Housing and Urban Development Total			1,555,840	26,848,880	28,404,720	
Department of the Interior						
Fish and Wildlife Management Assistance	15.608	Conservation	-	65,161	65,161	
		Environment	-	40,214	40,214	
		Inland Fisheries	-	44,455	44,455	
		Marine Resource	-	114,754	114,754	
	15.608 Total		-	264,584	264,584	
Coastal Wetlands Planning, Protection and Restoration Act	15.614	Inland Fisheries	-	813,783	813,783	
Cooperative Endangered Species Conservation Fund	15.615	Conservation	-	30,989	30,989	
		Marine Resource	-	15,573	15,573	
	15.615 Total		-	46,562	46,562	
Clean Vessel Act	15.616	Environment	-	247,095	247,095	
Sportfishing and Boating Safety Act	15.622	Transportation	-	286,256	286,256	
North American Wetlands Conservation Fund	15.623	Conservation	-	400,000	400,000	
Landowner Incentive Program	15.633	Inland Fisheries	-	232,026	232,026	
State Wildlife Grants	15.634	Inland Fisheries	-	428,039	428,039	
Migratory Bird Joint Ventures	15.637	Inland Fisheries	-	23,247	23,247	
Challenge Cost Share	15.642	Inland Fisheries	-	10,938	10,938	
National Wildlife Refuge Fund	15.659	Conservation	-	4,755	4,755	
National Cooperative Geologic Mapping Program	15.810	Conservation	-	96,424	96,424	
Historic Preservation Fund Grants-In-Aid	15.904	Historic Preserve	-	569,565	569,565	
Outdoor Recreation_Acquisition, Development and Planning	15.916	Conservation	-	649,387	649,387	
Rivers, Trails and Conservation Assistance	15.921	Transportation	-	231,161	231,161	
Conservation Activities by Youth Service Organizations	15.931	Conservation	-	61,418	61,418	
Atlantic Salmon Management Project 01-0007	15.999	Marine Resource	-	14,202	14,202	
Webber Pond - 7 Mile Stream Fish Passage, WHIP 721218080FH & Others		Marine Resource	-	50,521	50,521	

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
Fish and Wildlife Cluster					
Sport Fish Restoration Program	15.605	Inland Fisheries	-	1,785,614	1,785,614
		Marine Resource	-	874,590	874,590
	15.605 Total		-	2,660,204	2,660,204
Wildlife Restoration and Basic Hunter Education	15.611	Inland Fisheries	-	2,798,759	2,798,759
Fish and Wildlife Cluster Total			-	5,458,963	5,458,963
Department of the Interior Total			-	9,888,926	9,888,926
Department of Justice					
Sexual Assault Services Formula Program	16.017	Human Services	-	165,550	165,550
2001 (U): Offender Reentry Program	16.202	Corrections	-	323	323
Juvenile Accountability Block Grants	16.523	Corrections	-	380,983	380,983
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	Corrections	-	657,269	657,269
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	Corrections	-	218,292	218,292
Missing Children's Assistance	16.543	Public Safety	191,761	119,191	310,952
Youth Gang Prevention	16.544	Public Safety	-	412,893	412,893
Title V_Delinquency Prevention Program	16.548	Corrections	-	48,359	48,359
State Justice Statistics Program for Statistical Analysis Centers	16.550	Corrections	-	99,954	99,954
National Criminal History Improvement Program (NCHIP)	16.554	Judicial	-	34,020	34,020
Crime Victim Assistance	16.575	Corrections	-	50,182	50,182
		Human Services	-	1,957,618	1,957,618
		Judicial	-	77,854	77,854
	16.575 Total		-	2,085,654	2,085,654
Crime Victim Compensation	16.576	Attorney General	-	270,500	270,500
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	Public Safety	-	181,996	181,996
Drug Court Discretionary Grant Program	16.585	Human Services	-	114,598	114,598
		Judicial	-	173,399	173,399
	16.585 Total		-	287,997	287,997
Violence Against Women Formula Grants	16.588	Attorney General	86,245	64,207	150,452
		Judicial	19,323	51,640	70,963
		Public Safety	441,267	866,874	1,308,141
	16.588 Total		546,835	982,721	1,529,556
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	Corrections	-	123,715	123,715
		Judicial	-	468,058	468,058
	16.590 Total		-	591,773	591,773
Residential Substance Abuse Treatment for State Prisoners	16.593	Corrections	-	128,000	128,000
		Public Safety	-	23,022	23,022
	16.593 Total		-	151,022	151,022
State Criminal Alien Assistance Program	16.606	Corrections	-	121,800	121,800
Bulletproof Vest Partnership Program	16.607	Marine Resource	-	1,515	1,515
Project Safe Neighborhoods	16.609	Public Safety	-	61,563	61,563
Public Safety Partnership and Community Policing Grants	16.710	Inland Fisheries	-	239,520	239,520
		Public Safety	-	236,961	236,961
	16.710 Total		-	476,481	476,481
Juvenile Mentoring Program	16.726	Corrections	-	205,239	205,239
Enforcing Underage Drinking Laws Program	16.727	Human Services	-	447,594	447,594
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	16.736	Human Services	-	2,890	2,890
Forensic DNA Backlog Reduction Program	16.741	Public Safety	-	101,072	101,072
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	Attorney General	-	79,943	79,943
		Human Services	-	44,667	44,667
		Public Safety	-	82,010	82,010
	16.742 Total		-	206,620	206,620
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	Corrections	-	5,072	5,072
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	16.748	Public Safety	-	52,582	52,582
Congressionally Recommended Awards	16.753	Public Safety	-	152,487	152,487
Harold Rogers Prescription Drug Monitoring Program	16.754	Human Services	-	186,302	186,302
Recovery Act - State Victim Assistance Formula Grant Program	16.801	Corrections	27,750	-	27,750
		Human Services	221,726	-	221,726
	16.801 Total		249,476	-	249,476

STATE OF MAINE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
JAG Program Cluster					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Attorney General	-	560,855	560,855
		Public Safety	-	1,045,408	1,045,408
	16.738 Total		-	1,606,263	1,606,263
Recovery Act - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	Attorney General	146,274	-	146,274
		Corrections	82,994	-	82,994
		Judicial	767,095	-	767,095
		Public Safety	1,326,989	-	1,326,989
	16.803 Total		2,323,352	-	2,323,352
JAG Program Cluster Total			2,323,352	1,606,263	3,929,615
Department of Justice Total			3,311,424	10,315,977	13,627,401
Department of Labor					
Labor Force Statistics	17.002	Labor	-	1,200,956	1,200,956
Compensation and Working Conditions	17.005	Labor	-	140,279	140,279
Unemployment Insurance	17.225	Labor	147,118,508	268,224,516	415,343,024 *
Senior Community Service Employment Program	17.235	Human Services	16,420	770,619	787,039
Trade Adjustment Assistance	17.245	Labor	-	6,040,084	6,040,084
2002 (B): Work Incentives Grant	17.266	Labor	-	125,191	125,191
H-1B Job Training Grants	17.268	Economic Devel	-	22,024	22,024
		Labor	-	142,123	142,123
	17.268 Total		-	164,147	164,147
Work Opportunity Tax Credit Program (WOTC)	17.271	Labor	-	60,361	60,361
Temporary Labor Certification for Foreign Workers	17.273	Labor	-	172,508	172,508
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	Labor	1,014,219	-	1,014,219
Health Care Tax Credit (HCTC) National Emergency Grants (NEGs)	17.276	Labor	197,294	-	197,294
Workforce Investment Act (WIA) Dislocated Worker National Reserve Demonstration Grants	17.280	Labor	-	12,181	12,181
Consultation Agreements	17.504	Labor	-	520,320	520,320
Mine Health and Safety Grants	17.600	Labor	-	20,446	20,446
Employment Service Cluster					
Employment Service/Wagner-Peyser Funded Activities	17.207	Labor	1,081,957	4,472,602	5,554,559
Disabled Veterans' Outreach Program (DVOP)	17.801	Labor	-	389,204	389,204
Local Veterans' Employment Representative Program	17.804	Labor	-	401,841	401,841
Employment Service Cluster Total			1,081,957	5,263,647	6,345,604
WIA Cluster					
WIA Adult Program	17.258	Labor	642,758	2,832,867	3,475,625 *
WIA Youth Activities	17.259	Labor	1,056,064	3,295,415	4,351,479 *
WIA Dislocated Workers	17.260	Labor	3,545,150	2,275,955	5,821,105 *
WIA Dislocated Worker Formula Grants	17.278	Labor	-	2,377,654	2,377,654 *
WIA Cluster Total			5,243,972	10,781,891	16,025,863 *
Department of Labor Total			154,672,370	293,497,146	448,169,516
Department of Transportation					
Airport Improvement Program	20.106	Transportation	54,084	3,209,434	3,263,518
National Motor Carrier Safety	20.218	Public Safety	-	261,197	261,197
		State	-	10,702	10,702
	20.218 Total		-	271,899	271,899
Commercial Driver's License Program Improvement Grant	20.232	State	-	113,650	113,650
Border Enforcement Grants	20.233	Public Safety	-	454,909	454,909
Safety Data Improvement Program	20.234	Public Safety	-	133,236	133,236
Capital Assistance to States - Intercity Passenger Rail Service	20.317	Transportation	-	305,424	305,424
Metropolitan Transportation Planning	20.505	Transportation	-	37,290	37,290
Formula Grants for Other Than Urbanized Areas	20.509	Transportation	6,319,703	6,229,359	12,549,062 *
Paul S. Sarbanes Transit in the Parks	20.520	Transportation	-	527,042	527,042
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614	Public Safety	-	43,905	43,905
Pipeline Safety Program Base Grants	20.700	Public Utilities	-	238,107	238,107
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	Defense	-	114,228	114,228
State Damage Prevention Program Grants	20.720	Public Utilities	-	76,404	76,404
PHMSA Pipeline Safety Program One Call Grant	20.721	Public Utilities	-	73,405	73,405
Surface Transportation _ Discretionary Grants for Capital Investment.	20.932	Transportation	1,674,178	-	1,674,178

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Federal Transit Cluster						
Federal Transit_Capital Investment Grants	20.500	Transportation	-	9,559,556	9,559,556	*
Federal Transit_Formula Grants	20.507	Transportation	5,156,662	2,469,773	7,626,435	*
Federal Transit Cluster Total			5,156,662	12,029,329	17,185,991	*
Highway Planning and Construction Cluster						
Highway Planning and Construction	20.205	Transportation	26,078,867	161,470,410	187,549,277	*
Recreational Trails Program	20.219	Conservation	-	1,628,372	1,628,372	*
Highway Planning and Construction Cluster Total			26,078,867	163,098,782	189,177,649	*
Highway Safety Cluster						
State and Community Highway Safety	20.600	Human Services	-	98,641	98,641	
		Public Safety	-	948,622	948,622	
		State	-	24,747	24,747	
	20.600 Total		-	1,072,010	1,072,010	
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	Public Safety	-	445,813	445,813	
Occupant Protection Incentive Grants	20.602	Human Services	-	10,120	10,120	
		Public Safety	-	353,976	353,976	
	20.602 Total		-	364,096	364,096	
Safety Belt Performance Grants	20.609	Public Safety	-	309,291	309,291	
State Traffic Safety Information System Improvement Grants	20.610	Public Safety	-	375,418	375,418	
Incentive Grant Program to Increase Motorcyclist Safety	20.612	State	-	51,000	51,000	
Child Safety and Child Booster Seats Incentive Grants	20.613	Public Safety	-	145,881	145,881	
Highway Safety Cluster Total			-	2,763,509	2,763,509	
Transit Services Programs Cluster						
Capital Assistance Program for Elderly Persons and Persons with Disabiliti	20.513	Transportation	-	1,312,256	1,312,256	
Job Access_Reverse Commute	20.516	Transportation	-	954,935	954,935	
New Freedom Program	20.521	Transportation	-	5,671	5,671	
Transit Services Programs Cluster Total			-	2,272,862	2,272,862	
Department of Transportation Total			39,283,494	191,992,774	231,276,268	
Equal Employment Opportunity Commission						
Employment Discrimination_Title VII of the Civil Rights Act of 1964	30.001	Human Rights	-	142,414	142,414	
Equal Employment Opportunity Commission Total			-	142,414	142,414	
General Services Administration						
Donation of Federal Surplus Personal Property	39.003	DAFS	-	950,634	950,634	
General Services Administration Total			-	950,634	950,634	
Institute of Museum and Library Services						
Grants to States	45.310	Library	-	1,072,822	1,072,822	
Institute of Museum and Library Services Total			-	1,072,822	1,072,822	
National Endowment for the Arts						
Promotion of the Arts_Grants to Organizations and Individuals	45.024	Museum	-	182	182	
Promotion of the Arts_Partnership Agreements	45.025	Arts	17,563	807,799	825,362	
National Endowment for the Arts Total			17,563	807,981	825,544	
National Endowment for the Humanities						
Promotion of the Humanities_Public Programs	45.164	Museum	-	14,199	14,199	
National Endowment for the Humanities Total			-	14,199	14,199	
Department of Veterans Affairs						
Burial Expenses Allowance for Veterans	64.101	Defense	-	10,929	10,929	
State Cemetery Grants	64.203	Defense	-	1,566,432	1,566,432	
Department of Veterans Affairs Total			-	1,577,361	1,577,361	

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
Environmental Protection Agency					
State Indoor Radon Grants	66.032	Human Services	-	215,092	215,092
National Clean Diesel Emissions Reduction Program	66.039	Environment	140,872	287,649	428,521
State Clean Diesel Grant Program	66.040	Education	-	6,500	6,500
		Environment	428,633	368,133	796,766
		Transportation	17,675	-	17,675
	66.040 Total		446,308	374,633	820,941
Congressionally Mandated Projects	66.202	Environment	-	272,410	272,410
State Public Water System Supervision	66.432	Human Services	-	931,674	931,674
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	Environment	-	(1,259)	(1,259)
Water Quality Management Planning	66.454	Environment	83,342	92,095	175,437
Capitalization Grants for Clean Water State Revolving Funds	66.458	Environment	266,372	-	266,372
Regional Wetland Program Development Grants	66.461	Conservation	-	93,613	93,613
Wastewater Operator Training Grant Program	66.467	Environment	-	(27)	(27)
Capitalization Grants for Drinking Water State Revolving Funds	66.468	Human Services	-	1,307,454	1,307,454
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	Human Services	-	57,260	57,260
Beach Monitoring and Notification Program Implementation Grants	66.472	Environment	-	270,217	270,217
Water Protection Grants to the States	66.474	Human Services	-	48,208	48,208
Science To Achieve Results (STAR) Research Program	66.509	Inland Fisheries	-	38,299	38,299
Performance Partnership Grants	66.605	Agriculture	-	358,854	358,854
		Environment	-	7,102,763	7,102,763
	66.605 Total		-	7,461,617	7,461,617
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	Environment	-	166,012	166,012
		Marine Resource	-	123,641	123,641
	66.608 Total		-	289,653	289,653
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	Environment	-	66,371	66,371
Multi-Media Capacity Building Grants for States and Tribes	66.709	Environment	-	(1,839)	(1,839)
Source Reduction Assistance	66.717	Environment	-	26,112	26,112
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	Environment	-	429,269	429,269
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	Environment	-	385,315	385,315
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	Environment	548,157	533,808	1,081,965
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	Environment	-	223,843	223,843
State and Tribal Response Program Grants	66.817	Environment	-	1,019,917	1,019,917
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	Environment	229,816	-	229,816
Environmental Policy and State Sustainability Grants	66.940	Environment	-	65,075	65,075
Environmental Protection Agency Total			1,714,867	14,486,459	16,201,326
Department of Energy					
State Energy Program	81.041	Governor	13,373,757	-	13,373,757 *
		Labor	99,090	-	99,090 *
		Planning	155,581	161,858	317,439 *
		Public Safety	218,436	-	218,436 *
		Transportation	235,246	-	235,246 *
	81.041 Total		14,082,110	161,858	14,243,968 *
State Energy Program Special Projects	81.119	Planning	-	96,646	96,646
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	Governor	19,646	-	19,646
		Public Utilities	307,799	-	307,799
	81.122 Total		327,445	-	327,445
Department of Energy Total			14,409,555	258,504	14,668,059

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Department of Education						
Adult Education - Basic Grants to States	84.002	Corrections	-	33,501	33,501	
		Education	-	1,867,504	1,867,504	
	84.002 Total		-	1,901,005	1,901,005	
Migrant Education_State Grant Program	84.011	Education	-	942,462	942,462	
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	Corrections	-	212,314	212,314	
Career and Technical Education -- Basic Grants to States	84.048	Corrections	-	15,582	15,582	
		Education	-	6,291,503	6,291,503	
	84.048 Total		-	6,307,085	6,307,085	
Rehabilitation Services_Client Assistance Program	84.161	Labor	-	91,844	91,844	
Safe and Drug-Free Schools and Communities_National Programs	84.184	Human Services	-	43,944	43,944	
Safe and Drug-Free Schools and Communities_State Grants	84.186	Corrections	-	889	889	
		Human Services	-	127,401	127,401	
	84.186 Total		-	128,290	128,290	
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	Labor	-	363,317	363,317	
Even Start_State Educational Agencies	84.213	Education	-	245,495	245,495	
Fund for the Improvement of Education	84.215	Education	-	7,757	7,757	
Assistive Technology	84.224	Education	-	472,016	472,016	
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265	Labor	-	88,055	88,055	
Twenty-First Century Community Learning Centers	84.287	Education	-	5,862,637	5,862,637	
1995 (B): Innovative Education Program Strategies	84.298	Corrections	-	10	10	
Special Education - State Personnel Development	84.323	Education	-	615,621	615,621	
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	Education	-	194,619	194,619	
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	Corrections	-	43,753	43,753	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Education	-	3,139,474	3,139,474	
2002 (B): Reading First State Grants	84.357	Education	-	1,022,213	1,022,213	
Rural Education	84.358	Corrections	-	13,567	13,567	
		Education	-	1,652,582	1,652,582	
	84.358 Total		-	1,666,149	1,666,149	
English Language Acquisition Grants	84.365	Education	-	272,855	272,855	
Mathematics and Science Partnerships	84.366	Education	-	857,824	857,824	
Improving Teacher Quality State Grants	84.367	Corrections	-	4,971	4,971	*
		Education	-	12,293,177	12,293,177	*
	84.367 Total		-	12,298,148	12,298,148	*
Grants for State Assessments and Related Activities	84.369	Education	-	3,226,461	3,226,461	
Striving Readers	84.371	Education	-	2,284	2,284	
Education Jobs Fund	84.410	Dirigo	-	119,175	119,175	
		Education	-	3,208,949	3,208,949	
	84.410 Total		-	3,328,124	3,328,124	
Early Intervention Services (IDEA) Cluster						
Special Education-Grants for Infants and Families	84.181	Education	-	1,746,646	1,746,646	
2009: Special Education - Grants for Infants and Families, Recovery Act	84.393	Education	2,098,294	-	2,098,294	
Early Intervention Services (IDEA) Cluster Total			2,098,294	1,746,646	3,844,940	
Education of Homeless Children and Youth Cluster						
Education for Homeless Children and Youth	84.196	Education	-	196,067	196,067	
2009: Education for Homeless Children and Youth, Recovery Act	84.387	Education	28,525	-	28,525	
Education of Homeless Children and Youth Cluster Total			28,525	196,067	224,592	
Educational Technology State Grants Cluster						
Educational Technology State Grants	84.318	Corrections	-	3,279	3,279	
		Education	-	658,915	658,915	
2009: Education Technology State Grants, Recovery Act	84.386	Corrections	69	-	69	
		Education	881,220	-	881,220	
	84.386 Total		881,289	-	881,289	
Educational Technology State Grants Cluster Total			881,289	662,194	1,543,483	

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Independent Living Services for Older Individuals Who Are Blind Cluster						
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177	Labor	-	435,293	435,293	
2009: Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399	Labor	67,255	-	67,255	
Independent Living Services for Older Individuals Who Are Blind Cluster Total			67,255	435,293	502,548	
Independent Living State Grants Cluster						
Independent Living_State Grants	84.169	Labor	-	311,892	311,892	
2009: Independent Living State Grants, Recovery Act	84.398	Labor	88,954	-	88,954	
Independent Living State Grants Cluster Total			88,954	311,892	400,846	
School Improvement Grants Cluster						
School Improvement Grants	84.377	Education	-	712,408	712,408	
2009: School Improvement Grants, Recovery Act	84.388	Education	3,168,161	-	3,168,161	
School Improvement Grants Cluster Total			3,168,161	712,408	3,880,569	
Special Education Cluster (IDEA)						
Special Education_Grants to States	84.027	Corrections	-	38,031	38,031	*
		Education	-	52,223,073	52,223,073	*
	84.027 Total		-	52,261,104	52,261,104	*
Special Education_Preschool Grants	84.173	Education	-	2,233,984	2,233,984	*
2009: Special Education Grants to States, Recovery Act	84.391	Corrections	4,148	-	4,148	*
		Education	25,051,809	-	25,051,809	*
	84.391 Total		25,055,957	-	25,055,957	*
2009: Special Education - Preschool Grants, Recovery Act	84.392	Education	1,775,973	-	1,775,973	*
Special Education Cluster (IDEA) Total			26,831,930	54,495,088	81,327,018	*
State Fiscal Stabilization Fund Cluster						
2009: State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	Education	67,204,653	-	67,204,653	*
2009: State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	Financial Serv	239,809	-	239,809	*
State Fiscal Stabilization Fund Cluster Total			67,444,462	-	67,444,462	*
Statewide Data Systems Cluster						
Statewide Data Systems	84.372	Education	-	1,855,750	1,855,750	
2009: Statewide Data Systems, Recovery Act	84.384	Education	541,794	-	541,794	
Statewide Data Systems Cluster Total			541,794	1,855,750	2,397,544	
Title I, Part A Cluster						
Title I Grants to Local Educational Agencies	84.010	Education	-	53,135,329	53,135,329	*
2009: Title I Grants to Local Educational Agencies, Recovery Act	84.389	Education	10,818,392	-	10,818,392	*
Title I, Part A Cluster Total			10,818,392	53,135,329	63,953,721	*
Vocational Rehabilitation Cluster						
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	Labor	1,851	16,533,680	16,535,531	*
2009: Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	84.390	Labor	1,245,619	4,353	1,249,972	*
Vocational Rehabilitation Cluster Total			1,247,470	16,538,033	17,785,503	*
Department of Education Total			113,216,526	173,422,456	286,638,982	
National Archives and Records Administration						
Cooperative Agreements to Support the Programs of the National Archives and Records Administration (NARA)	89.005	State	-	60,712	60,712	
National Archives and Records Administration Total			-	60,712	60,712	
U.S. Election Assistance Commission						
Help America Vote Act Requirements Payments	90.401	State	-	1,161,854	1,161,854	
U.S. Election Assistance Commission Total			-	1,161,854	1,161,854	

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
Department of Health and Human Services					
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	Human Services	-	22,213	22,213
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	Human Services	-	13,129	13,129
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042	Human Services	-	85,620	85,620
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043	Human Services	-	106,123	106,123
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048	Human Services	-	1,097,793	1,097,793
Alzheimer's Disease Demonstration Grants to States	93.051	Human Services	-	494,879	494,879
National Family Caregiver Support, Title III, Part E	93.052	Human Services	-	627,834	627,834
Public Health Emergency Preparedness	93.069	Human Services	-	6,895,388	6,895,388
		Public Safety	-	80,068	80,068
	93.069 Total		-	6,975,456	6,975,456
Environmental Public Health and Emergency Response	93.070	Human Services	-	499,835	499,835
Medicare Enrollment Assistance Program	93.071	Human Services	-	58,006	58,006
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	Human Services	-	546,561	546,561
Maternal and Child Health Federal Consolidated Programs	93.110	Human Services	-	796,016	796,016
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	Human Services	-	138,310	138,310
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	Human Services	-	191,718	191,718
Injury Prevention and Control Research and State and Community Based Programs	93.136	Human Services	-	336,359	336,359
Projects for Assistance in Transition from Homelessness (PATH)	93.150	Human Services	-	307,567	307,567
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	Human Services	-	275,654	275,654
Traumatic Brain Injury State Demonstration Grant Program	93.234	Human Services	-	74,747	74,747
Grants to States to Support Oral Health Workforce Activities	93.236	Human Services	-	402,044	402,044
State Rural Hospital Flexibility Program	93.241	Human Services	-	408,104	408,104
		Public Safety	-	20,963	20,963
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	Human Services	-	2,776,756	2,776,756
		Judicial	-	173,603	173,603
Universal Newborn Hearing Screening	93.251	Human Services	-	182,501	182,501
State Health Access Program	93.256	Dirigo	-	1,108,332	1,108,332
		Governor	-	163,670	163,670
	93.256 Total		-	1,272,002	1,272,002
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	Human Services	-	8,262,394	8,262,394
State Partnership Grant Program to Improve Minority Health	93.296	Human Services	-	83,615	83,615
Small Rural Hospital Improvement Grant Program	93.301	Human Services	-	157,887	157,887
ARRA - State Primary Care Offices	93.414	Human Services	28,500	-	28,500
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	Human Services	-	148,887	148,887
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.507	Human Services	-	123,486	123,486
Affordable Care Act (ACA) State Health Care Workforce Development Grants	93.509	Labor	-	92,754	92,754
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	Professional Reg	-	199,109	199,109
Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST)	93.512	Human Services	-	142,595	142,595
Affordable Care Act Aging and Disability Resource Center	93.517	Human Services	-	115,392	115,392
93.518 - Affordable Care Act - Medicare Improvements for Patients and Providers	93.518	Human Services	-	63,823	63,823
Affordable Care Act (ACA) Consumer Assistance Program Grants	93.519	Attorney General	-	84,693	84,693
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements	93.521	Human Services	-	50,506	50,506
State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges	93.525	Governor	-	36,415	36,415
Promoting Safe and Stable Families	93.556	Human Services	-	991,078	991,078
Child Support Enforcement	93.563	Human Services	1,268,322	15,906,236	17,174,558 *
Refugee and Entrant Assistance_State Administered Programs	93.566	Human Services	-	627,514	627,514
Refugee and Entrant Assistance_Discretionary Grants	93.576	Education	-	8,898	8,898
		Human Services	-	434,785	434,785
	93.576 Total		-	443,683	443,683
State Court Improvement Program	93.586	Judicial	-	281,555	281,555
Chafee Education and Training Vouchers Program (ETV)	93.599	Human Services	-	235,252	235,252
Family Connection Grants	93.605	Human Services	-	559,325	559,325
Voting Access for Individuals with Disabilities_Grants to States	93.617	State	-	13,028	13,028
Developmental Disabilities Basic Support and Advocacy Grants	93.630	Financial Serv	-	274,013	274,013
Children's Justice Grants to States	93.643	Human Services	-	27,889	27,889
Stephanie Tubbs Jones Child Welfare Services Program	93.645	Human Services	-	450,025	450,025
Social Services Research and Demonstration	93.647	Human Services	-	112,118	112,118

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Foster Care_Title IV-E	93.658	Human Services	459,130	17,771,565	18,230,695	*
Adoption Assistance	93.659	Human Services	958,149	12,451,420	13,409,569	*
Social Services Block Grant	93.667	Human Services	-	5,749,311	5,749,311	
Child Abuse and Neglect State Grants	93.669	Human Services	-	54,741	54,741	
Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	93.671	Human Services	-	889,793	889,793	
Chafee Foster Care Independence Program	93.674	Human Services	-	527,850	527,850	
Recovery Act Comparative Effectiveness Research - AHRQ	93.715	Human Services	72,342	-	72,342	
ARRA - Preventing Healthcare-Associated Infections	93.717	Human Services	279,845	-	279,845	
ARRA - State Grants to Promote Health Information Technology	93.719	Governor	2,760,746	-	2,760,746	
		Human Services	434,206	-	434,206	
	93.719 Total		3,194,952	-	3,194,952	
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723	Human Services	582,410	-	582,410	
ARRA - Prevention and Wellness � Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	Human Services	2,400,519	-	2,400,519	
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	Human Services	118,773	-	118,773	
Children's Health Insurance Program	93.767	Human Services	-	31,824,250	31,824,250	*
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	Human Services	-	839,705	839,705	
		Labor	-	107,358	107,358	
	93.768 Total		-	947,063	947,063	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	Human Services	-	900,817	900,817	
Money Follows the Person Rebalancing Demonstration	93.791	Human Services	-	113,026	113,026	
National Bioterrorism Hospital Preparedness Program	93.889	Human Services	-	2,135,718	2,135,718	
Grants to States for Operation of Offices of Rural Health	93.913	Human Services	-	240,640	240,640	
HIV Care Formula Grants	93.917	Human Services	-	1,648,317	1,648,317	
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	Corrections	-	(30)	(30)	
		Education	-	564,701	564,701	
	93.938 Total		-	564,671	564,671	
HIV Prevention Activities_Health Department Based	93.940	Human Services	-	1,502,855	1,502,855	
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	Human Services	-	107,188	107,188	
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	Human Services	-	167,836	167,836	
Block Grants for Community Mental Health Services	93.958	Human Services	-	1,619,824	1,619,824	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Human Services	-	6,255,533	6,255,533	
National All Schedules Prescription Electronic Reporting Grant	93.975	Human Services	-	36,792	36,792	
Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977	Human Services	-	293,973	293,973	
Preventive Health and Health Services Block Grant	93.991	Human Services	-	696,520	696,520	
Maternal and Child Health Services Block Grant to the States	93.994	Education	-	188,482	188,482	
		Human Services	-	3,178,026	3,178,026	
	93.994 Total		-	3,366,508	3,366,508	
MIS: Implementation of Uniform Alcohol & Drug Abuse Data Collection System	93.999	Human Services	-	150,443	150,443	
Aging Cluster						
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	Human Services	-	2,437,649	2,437,649	
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	Human Services	-	2,754,035	2,754,035	
Nutrition Services Incentive Program	93.053	Human Services	-	483,932	483,932	
Aging Home-Delivered Nutrition Services for States	93.705	Human Services	3,327	-	3,327	
Aging Congregate Nutrition Services for States	93.707	Human Services	37,429	-	37,429	
Aging Cluster Total			40,756	5,675,616	5,716,372	
CCDF Cluster						
Child Care and Development Block Grant	93.575	Human Services	-	8,558,977	8,558,977	*
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Human Services	-	5,249,569	5,249,569	*
ARRA Child Care and Development Block Grant	93.713	Human Services	4,792,610	-	4,792,610	*
CCDF Cluster Total			4,792,610	13,808,546	18,601,156	*
CSBG Cluster						
Community Services Block Grant	93.569	Human Services	-	3,895,475	3,895,475	
ARRA - Community Services Block Grant	93.710	Human Services	1,943,810	-	1,943,810	
CSBG Cluster Total			1,943,810	3,895,475	5,839,285	
Head Start Cluster						
Head Start	93.600	Human Services	-	49,359	49,359	
ARRA - Head Start	93.708	Human Services	198,863	-	198,863	
Head Start Cluster Total			198,863	49,359	248,222	
Immunization Cluster						
Immunization Grants	93.268	Human Services	-	12,600,037	12,600,037	*
ARRA - Immunization	93.712	Human Services	199,779	-	199,779	*
Immunization Cluster Total			199,779	12,600,037	12,799,816	*

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Medicaid Cluster						
State Medicaid Fraud Control Units	93.775	Attorney General	-	441,610	441,610	*
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	Human Services	20,154	3,167,537	3,187,691	*
Medical Assistance Program	93.778	Governor	-	69,744	69,744	*
		Human Services	201,042,952	1,445,878,392	1,646,921,344	*
	93.778 Total		201,042,952	1,445,948,136	1,646,991,088	*
Medicaid Cluster Total			201,063,106	1,449,557,283	1,650,620,389	
TANF Cluster						
Temporary Assistance for Needy Families	93.558	Human Services	-	74,977,741	74,977,741	*
ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	Human Services	11,461,815	-	11,461,815	*
TANF Cluster Total			11,461,815	74,977,741	86,439,556	*
Department of Health and Human Services Total			229,063,681	1,697,947,776	1,927,011,457	
Corporation for National and Community Service						
State Commissions	94.003	Planning	-	226,157	226,157	
Learn and Serve America_School and Community Based Programs	94.004	Education	-	24,833	24,833	
		Planning	-	40,974	40,974	
	94.004 Total		-	65,807	65,807	
AmeriCorps	94.006	Conservation	-	391,702	391,702	
		Planning	49,092	646,163	695,255	
	94.006 Total		49,092	1,037,865	1,086,957	
Program Development and Innovation Grants	94.007	Planning	-	81,942	81,942	
Training and Technical Assistance	94.009	Planning	-	48,087	48,087	
Volunteers in Service to America	94.013	Planning	5,100	287,719	292,819	
Volunteer Generation Fund	94.021	Planning	-	37,169	37,169	
Corporation for National and Community Service Total			54,192	1,784,746	1,838,938	
Executive Office of the President						
High Intensity Drug Trafficking Areas Program	95.001	Public Safety	-	17,709	17,709	
Executive Office of the President Total			-	17,709	17,709	
Social Security Administration						
Disability Insurance/SSI Cluster						
Social Security_Disability Insurance	96.001	Human Services	-	8,810,614	8,810,614	
Disability Insurance/SSI Cluster Total			-	8,810,614	8,810,614	
Social Security Administration Total			-	8,810,614	8,810,614	

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
Department of Homeland Security					
Interoperable Emergency Communications Grant	97.001	Defense	-	166,276	166,276
Boating Safety Financial Assistance	97.012	Inland Fisheries	-	528,658	528,658
		Marine Resource	-	353,719	353,719
	97.012 Total		-	882,377	882,377
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	Planning	-	111,977	111,977
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Conservation	-	27,564	27,564
		Defense	-	5,287,736	5,287,736
		Marine Resource	-	3,118	3,118
	97.036 Total		-	5,318,418	5,318,418
Hazard Mitigation Grant	97.039	Defense	-	95,512	95,512
National Dam Safety Program	97.041	Defense	-	63,541	63,541
Emergency Management Performance Grants	97.042	Defense	-	3,561,930	3,561,930
Assistance to Firefighters Grant	97.044	Conservation	-	55,370	55,370
		Public Safety	-	81,749	81,749
	97.044 Total		-	137,119	137,119
Cooperating Technical Partners	97.045	Planning	-	97,759	97,759
Pre-Disaster Mitigation	97.047	Defense	-	1,137,915	1,137,915
Buffer Zone Protection Program (BZPP)	97.078	Defense	-	39,027	39,027
Earthquake Consortium	97.082	Defense	-	43,939	43,939
Homeland Security Cluster					
Homeland Security Grant Program	97.067	Defense	-	5,182,941	5,182,941
		Inland Fisheries	-	537,291	537,291
		Public Safety	-	454,565	454,565
	97.067 Total		-	6,174,797	6,174,797
Homeland Security Cluster Total			-	6,174,797	6,174,797
Department of Homeland Security Total			-	17,830,587	17,830,587
Total State of Maine			$ 560,597,391.00	$ 3,005,715,139.00	$ 3,566,312,530.00

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2011

Legend of State Agency Abbreviations

Abbreviation	**State Agency Name**
Agriculture	Department of Agriculture
Arts	Maine Arts Commission
Attorney General	Department of the Attorney General
Conservation	Department of Conservation
Corrections	Department of Corrections
Defense	Department of Defense, Veterans and Emergency Management
Economic Devel	Department of Economic and Community Development
Education	Department of Education
Environment	Department of Environmental Protection
Financial Serv	Department of Administrative and Financial Services
Governor	Governor's Office
Historic Preserve	Maine Historical Preservation Commission
Human Rights	Maine Human Rights Commission
Human Services	Department of Health and Human Services
Inland Fisheries	Department of Inland Fisheries and Wildlife
Judicial	Judicial Branch
Labor	Department of Labor
Library	Maine State Library
Marine Resource	Department of Marine Resources
Museum	Maine State Museum
Planning	State Planning Office
Public Safety	Department of Public Safety
Public Utilities	Maine Public Utilities Commission
State	Department of Secretary of State
Transportation	Department of Transportation

STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

1. Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's basic financial statements (BFS) and is presented for purposes of additional analysis. Total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA) are shown. Federal financial assistance programs, which have not been assigned a CFDA number, have been identified using the two-digit federal agency number and the suffix *999*. Federal award amounts aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

2. Significant Accounting Policies

A. *Reporting Entity* - The reporting entity is defined in Note 1 to the BFS. The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2011, with the exception of the discrete component units identified in Note 1 to the BFS. The discrete component units engaged other auditors.

B. *Basis of Presentation* – The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.

   1) Federal Awards – Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost-reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance. Accordingly, non-monetary federal assistance, including food stamps, food stamp EBT cards and food commodities, is included in federal financial assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

   2) ARRA Reporting - To maximize the transparency and accountability of the American Recovery and Reinvestment Act spending required by Congress and in accordance with 2 CFR 215, section___. 21 "Uniform Administrative Requirements for Grants and Agreements" and the A-102 Common Rule provisions, recipients agree to maintain records that identify adequately the source and application of ARRA funds. For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, recipients agree to separately identify the expenditures for Federal awards under the ARRA on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. This shall be accomplished by identifying expenditures for Federal awards made under the ARRA separately, in their own column on the SEFA. Separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the

prefix “ARRA-” in identifying the name of the Federal program as the first characters in Item 9d of Part III on the SF-SAC.

3) ARRA Reporting Exception – The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households’ income, deductions and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.55 percent of USDA’s total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2011.

4) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $10.7 million in expenditures, distributions, or issuances for the year ended June 30, 2011. Programs audited as major programs are marked with asterisks in the accompanying schedule.

C. *Basis of Accounting* - The information presented in the Schedule of Expenditures of Federal Awards is presented primarily on the modified accrual basis of accounting, which is consistent with the fund financial statements. Under this basis, expenditures of federal awards are recorded in the accounting period in which the fund liability is incurred.

3. Unemployment Insurance Program

The expenditures reported on the Schedule for Unemployment Insurance (CFDA 17.225) include:

State Funds	$203,693,000
Federal Funds	211,650,024
Total	$415,343,024

4. NonCash Awards

The State of Maine is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements. Noncash awards received by the State are included in the Schedule of Expenditures of Federal Awards as follows:

CFDA Number	Program Title	Noncash Awards	Commodities on hand at June 30, 2011
10.551	SNAP (Supplemental Nutrition Assistance Program)	375,063,008	-
10.553	School Breakfast Program	123,640	20,409
10.555	National School Lunch Program	3,717,210	-
10.559	Summer Food Service Program for Children	5,815	-
10.569	Emergency Food Assistance Program	2,459,457	434,313
10.664	Cooperative Forestry Assistance	1,224,329	-
12.401	National Guard Military Operations & Maint. Proj.	1,440,470	-
12.401	Readiness Sustainment Maint. Center (formerly CFDA 12.999)	6,876,612	-
39.003	Donation of federal surplus property	950,634	376,679
93.268 Immunization Cluster	Immunization grants	9,558,935	-

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Section I – Summary of Auditor’s Results

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
• Material weaknesses identified?	YES ☐	NO ☑
• Significant deficiencies identified that were not considered to be material weaknesses?	YES ☐	NO ☑
• Noncompliance material to financial statements noted?	YES ☐	NO ☑

Federal Awards:

Internal control over major programs:		
• Material weaknesses identified?	YES ☑	NO ☐
• Significant deficiencies identified that were not considered to be material weaknesses?	YES ☑	NO ☐

Type of auditor's report issued on compliance for major programs:

<u>Unqualified</u>
Adoption Assistance
CCDF Cluster
Child Support Enforcement
Children's Health Insurance Program
Community Development Block Grants – State-Administered CDBG Cluster
Federal Transit Cluster
Formula Grants for Other Than Urbanized Areas
Foster Care Title IV-E
Highway Planning and Construction Cluster
Immunization Cluster
Medicaid Cluster
National Guard Military Operations and Maintenance (O&M) Projects
SNAP Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
State Energy Program
State Fiscal Stabilization Fund Cluster
TANF Cluster
Vocational Rehabilitation Cluster
WIA Cluster

<u>Qualified</u>
Child Nutrition Cluster
Improving Teacher Quality State Grants
Special Education Cluster (IDEA)
Title I, Part A Cluster
Unemployment Insurance

Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	YES ☑	NO ☐

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Identification of Major Programs:

CFDA #	Name of Federal Program or Cluster
SNAP Cluster	
10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
CDBG - State-Administered CDBG Cluster	
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
14.255	2009: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii-Recovery Act Funded
WIA Cluster	
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
17.278	WIA Dislocated Worker Formula Grants
Highway Planning and Construction Cluster	
20.205	Highway Planning and Construction
20.219	Recreational Trails Program
Federal Transit Cluster	
20.500	Federal Transit Capital Investment Grants
20.507	Federal Transit Formula Grants
Title I, Part A Cluster	
84.010	Title I Grants to Local Educational Agencies
84.389	2009: Title I Grants to Local Educational Agencies, Recovery Act
Special Education Cluster (IDEA)	
84.027	Special Education Grants to States
84.173	Special Education Preschool Grants
84.391	2009: Special Education Grants to States, Recovery Act
84.392	2009: Special Education - Preschool Grants, Recovery Act

SECTION I – SUMMARY OF AUDITOR'S RESULTS

<u>Vocational Rehabilitation Cluster</u>

84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.390	2009: Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act

<u>State Fiscal Stabilization Fund Cluster</u>

84.394	2009: State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
84.397	2009: State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act

<u>Immunization Cluster</u>

93.268	Immunization Grants
93.712	ARRA - Immunization

<u>TANF Cluster</u>

93.558	Temporary Assistance for Needy Families
93.714	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program

<u>CCDF Cluster</u>

93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.713	ARRA – Child Care and Development Block Grant

<u>Medicaid Cluster</u>

93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers Title XVIII Medicare
93.778	Medical Assistance Program

<u>Other Programs</u>

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225	Unemployment Insurance
20.509	Formula Grants for Other Than Urbanized Areas
81.041	State Energy Program
84.367	Improving Teacher Quality State Grants
93.563	Child Support Enforcement
93.658	Foster Care - Title IV-E
93.659	Adoption Assistance
93.767	Children's Health Insurance Program

Dollar threshold used to distinguish between type A and type B programs: $10,698,938

Does the auditee qualify as low risk? YES ☐ NO ☑

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Summary of Questioned Costs:

Federal Agency	Federal Program	Known Questioned Costs	Finding Number
U.S. Department of Health and Human Services	SNAP Cluster	$ 21,815	11-1103-01
	Medicaid Cluster	undeterminable undeterminable 26,024 undeterminable 223,793 undeterminable undeterminable	11-1106-01 11-1106-02 11-1106-03 11-1106-04 11-1106-07 11-1106-14 11-1140-01
	Child Care Development Cluster (CCDF)	undeterminable	11-1114-04
	Foster Care – Title IV-E	11,214	11-1109-01
	Children's Health Insurance Program	undeterminable undeterminable undeterminable undeterminable	11-1106-04 11-1106-14 11-1106-16 11-1140-01
U.S. Department of Labor	Unemployment Compensation	6,532 undeterminable	11-1302-06 11-1302-08

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Section II – Financial Statement Findings


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MAINE

FINANCIAL STATEMENT FINDINGS

No financial statement findings were issued for the fiscal year ending June 30, 2011.

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Indexes to Federal Program Findings

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Dept	Page
WIA Cluster CFDA# 17.258, 17.259, 17.260, 17.278			
11-1315-01	Cash management procedures need to be improved	DAFS	E-98
11-1315-02	Subrecipient monitoring activities need to be improved	DOL DAFS	E-99
11-1315-03	Procedures for providing award information to subrecipients need to be implemented	DOL	E-100
11-1315-04	Procedures to ensure compliance with Federal suspension and debarment requirements need improvement	DOL	E-102
Highway Planning and Construction Cluster CFDA# 20.205, 20.219			
11-1401-01	Procedures related to Davis-Bacon requirements need improvement	DOT	E-103
11-1401-02	Quality Assurance requirements not followed	DOT	E-104
Federal Transit Cluster CFDA# 20.500, 20.507			
11-1403-01	Procedures related to subrecipient monitoring requirements need improvement	DOT	E-106
Formula Grants for Other Than Urbanized Areas CFDA# 20.509			
11-1403-01	Procedures related to subrecipient monitoring requirements need improvement	DOT	E-106
State Energy Program CFDA# 81.041			
11-1530-01	Federal suspension and debarment procedures need to be implemented	EXEC	E-108
11-1530-03	Subrecipient monitoring procedures need improvement	EXEC	E-109
Title I, Part A Cluster CFDA# 84.010, 84.389			
11-1200-01	Noncompliance with subrecipient cash management requirements	DAFS	E-73
11-1200-03	Procedures to comply with Treasury State Agreement on cash management need to be improved	DAFS	E-74
11-1200-04	Federal cash management procedures inadequate	DAFS	E-76

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Dept	Page
Special Education Cluster (IDEA) CFDA# 84.027, 84.173, 84.391, 84.392			
11-1200-01	Noncompliance with subrecipient cash management requirements	DAFS	E-73
11-1200-03	Procedures to comply with Treasury State Agreement on cash management need to be improved	DAFS	E-74
11-1200-04	Federal cash management procedures inadequate	DAFS	E-76
11-1201-01	Noncompliance with earmarking requirements	DOE	E-78
11-1201-02	During-the-award monitoring procedures need improvement	DOE	E-79
11-1201-03	Award identification procedures need improvement	DOE	E-80
Vocational Rehabilitation Cluster CFDA# 84.126, 84.390			
11-1308-01	Cash management procedures need improvement	DAFS	E-93
11-1308-02	Eligibility decisions need to be more timely	DOL	E-94
11-1308-03	Improvements are needed to ensure timely development of Individualized Plan for Employment (IPE)	DOL	E-96
Improving Teacher Quality State Grants CFDA# 84.367			
11-1200-01	Noncompliance with subrecipient cash management requirements	DAFS	E-73
11-1221-01	Grant information not consistently or accurately provided to local educational agencies (LEAs)	DOE	E-85
State Fiscal Stabilization Fund Cluster CFDA# 84.394, 84.397			
11-1200-03	Procedures to comply with Treasury State Agreement on cash management need to be improved	DAFS	E-74
Immunization Cluster CFDA# 93.268, 93.712			
none			

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BY FEDERAL PROGRAM

Children's Health Insurance Program continued on next page

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Program / Finding #	Brief Summary of Finding	State Dept	Page
Medicaid Cluster continued from previous page			
11-1106-13	Procedures need to be implemented to ensure that the MaineCare Fiscal Agent complies with provisions relating to information technology risk assessment and system security reviews	DHHS	E-46
11-1106-14	Procedures need to be implemented to ensure correct reimbursement rates are paid to providers and cost of care is properly deducted	DAFS DHHS	E-48
11-1106-16	Incorrect client eligibility determinations	DHHS	E-50
11-1111-01	Income and Eligibility Verification System procedures need improvement	DHHS	E-57
11-1140-01	School based rehabilitation services billing and payment procedures need improvement	DHHS	E-68
11-1140-02	Claims processing procedures to ensure local match (certified seed) is met needs improvement	DHHS	E-69
11-1140-03	Procedures needed to ensure better accountability of certified public expenditures	DHHS	E-71

Legend of State Agency Abbreviations:

DAFS Department of Administrative and Financial Services
DHHS Department of Health and Human Services
DOE Department of Education
DOL Department of Labor
DOT Department of Transportation
DVEM Defense Veterans and Emergency Management
EXEC Executive Office

INDEX TO FEDERAL FINDINGS
BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Administrative and Financial Services																
11-1103-01	SNAP Cluster		✓													E-55
11-1106-02	Medicaid Cluster	✓	✓										✓			E-30
11-1106-03	Medicaid Cluster		✓													E-32
11-1106-07	Multiple Programs	✓	✓										✓			E-38
11-1106-14	Multiple Programs	✓	✓													E-48
11-1111-02	TANF Cluster												✓			E-59
11-1114-01	CCDF Cluster			✓												E-60
11-1200-01	Multiple Programs			✓												E-73
11-1200-03	Multiple Programs			✓												E-74
11-1200-04	Multiple Programs			✓												E-76
11-1302-02	Unemployment Insurance	✓	✓													E-87
11-1302-06	Unemployment Insurance					✓										E-89
11-1302-07	Unemployment Insurance														✓	E-90
11-1308-01	Vocational Rehabilitation Cluster			✓												E-93
11-1315-01	WIA Cluster			✓												E-98
11-1315-02	WIA Cluster													✓		E-99

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BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Education																
11-1201-01	Special Education Cluster (IDEA)							✔								E-78
11-1201-02	Special Education Cluster (IDEA)													✔		E-79
11-1201-03	Special Education Cluster (IDEA)													✔		E-80
11-1203-03	Child Nutrition Cluster														✔	E-82
11-1203-04	Child Nutrition Cluster												✔			E-83
11-1221-01	Improving Teacher Quality State Grants													✔		E-85
Department of Health and Human Services																
11-1106-01	Medicaid Cluster	✔														E-29
11-1106-02	Medicaid Cluster	✔	✔										✔			E-30
11-1106-04	Multiple Programs	✔	✔													E-33
11-1106-05	Medicaid Cluster														✔	E-35
11-1106-06	Medicaid Cluster														✔	E-36
11-1106-07	Multiple Programs	✔	✔										✔			E-38
11-1106-08	Medicaid Cluster					✔										E-39
11-1106-10	Medicaid Cluster					✔										E-41
11-1106-11	Multiple Programs	✔	✔													E-42
11-1106-12	Multiple Programs														✔	E-44
11-1106-13	Multiple Programs														✔	E-46
11-1106-14	Multiple Programs	✔	✔													E-48
11-1106-16	Multiple Programs	✔	✔			✔										E-50
11-1109-01	Foster Care – Title IV-E	✔														E-53
11-1111-01	Multiple Programs														✔	E-57
Continued on next page …																

INDEX TO FEDERAL FINDINGS
BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Health and Human Services *(continued from previous page)*																
11-1114-04	CCDF Cluster		✓													E-61
11-1114-05	CCDF Cluster		✓												✓	E-62
11-1128-02	Child Support Enforcement														✓	E-64
11-1128-03	Child Support Enforcement														✓	E-65
11-1128-04	Child Support Enforcement														✓	E-66
11-1140-01	Multiple Programs	✓														E-68
11-1140-02	Multiple Programs							✓								E-69
11-1140-03	Multiple Programs							✓								E-71
Department of Labor																
11-1302-02	Unemployment Insurance	✓	✓													E-87
11-1302-06	Unemployment Insurance					✓										E-89
11-1302-07	Unemployment Insurance														✓	E-90
11-1302-08	Unemployment Insurance	✓	✓													E-91
11-1308-02	Vocational Rehabilitation Cluster					✓										E-94
11-1308-03	Vocational Rehabilitation Cluster					✓										E-96
11-1315-02	WIA Cluster													✓		E-99
11-1315-03	WIA Cluster													✓		E-100
11-1315-04	WIA Cluster									✓						E-102

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BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Transportation																
11-1401-01	Highway Planning and Construction Cluster				✓											E-103
11-1401-02	Highway Planning and Construction Cluster														✓	E-104
11-1403-01	Multiple Programs													✓		E-106
Executive Office																
11-1530-01	State Energy Program									✓						E-108
11-1530-03	State Energy Program	✓	✓											✓		E-109

INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER BY FINDING TYPE

Finding # *	Page	Compliance Area	Finding Type			
			Material Non-compliance	Internal Control		Questioned Costs
				Material Weakness	Significant Deficiency	
11-1103-01	E-55	Allowable Costs				$ 21,815
11-1106-01	E-29	Activities Allowed			✓	Undeterminable
11-1106-02	E-30	Activities Allowed/Allowable Costs/Reporting			✓	Undeterminable
11-1106-03	E-32	Allowable Costs			✓	26,024
11-1106-04	E-33	Activities Allowed/Allowable Costs			✓	Undeterminable
11-1106-05	E-35	Special Tests and Provisions			✓	
11-1106-06	E-36	Special Tests and Provisions			✓	
11-1106-07	E-38	Activities Allowed/Allowable Costs/Reporting				223,793
11-1106-08	E-39	Eligibility			✓	
11-1106-10	E-41	Eligibility			✓	
11-1106-11	E-42	Activities Allowed/Allowable Costs			✓	
11-1106-12	E-44	Special Tests and Provisions			✓	
11-1106-13	E-46	Special Tests and Provisions			✓	
11-1106-14	E-48	Activities Allowed/Allowable Costs			✓	Undeterminable
11-1106-16	E-50	Activities Allowed/Allowable Costs/Eligibility			✓	Undeterminable
11-1109-01	E-53	Activities Allowed				11,214
11-1111-01	E-57	Special Tests and Provisions			✓	
11-1111-02	E-59	Reporting			✓	
11-1114-01	E-60	Cash Management			✓	

**Gaps in the sequence of finding numbers result from matters that are not required to be reported in accordance with OMB Circular A-133.*

INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER BY FINDING TYPE

Finding # *	Page	Compliance Area	Finding Type			
			Material Non-compliance	Internal Control		Questioned Costs
				Material Weakness	Significant Deficiency	
11-1114-04	E-61	Allowable Costs			✓	Undeterminable
11-1114-05	E-62	Allowable Costs/Special Tests and Provisions			✓	
11-1128-02	E-64	Special Tests and Provisions			✓	
11-1128-03	E-65	Special Tests and Provisions			✓	
11-1128-04	E-66	Special Tests and Provisions			✓	
11-1140-01	E-68	Activities Allowed			✓	Undeterminable
11-1140-02	E-69	Matching, Level of Effort, Earmarking			✓	
11-1140-03	E-71	Matching, Level of Effort, Earmarking			✓	
11-1200-01	E-73	Cash Management	✓	✓		
11-1200-03	E-74	Cash Management			✓	
11-1200-04	E-76	Cash Management			✓	
11-1201-01	E-78	Matching, Level of Effort, Earmarking			✓	
11-1201-02	E-79	Subrecipient Monitoring			✓	
11-1201-03	E-80	Subrecipient Monitoring			✓	
11-1203-03	E-82	Special Tests and Provisions			✓	
11-1203-04	E-83	Reporting	✓	✓		
11-1221-01	E-85	Subrecipient Monitoring			✓	
11-1302-02	E-87	Activities Allowed/Allowable Costs		✓		
11-1302-06	E-89	Eligibility	✓	✓		6,532
11-1302-07	E-90	Special Tests and Provisions			✓	

**Gaps in the sequence of finding numbers result from matters that are not required to be reported in accordance with OMB Circular A-133.*

INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER BY FINDING TYPE

Finding # *	Page	Compliance Area	Finding Type			
			Material Non-compliance	Internal Control		Questioned Costs
				Material Weakness	Significant Deficiency	
11-1302-08	E-91	Activities Allowed/Allowable Costs			✓	Undeterminable
11-1308-01	E-93	Cash Management			✓	
11-1308-02	E-94	Eligibility			✓	
11-1308-03	E-96	Eligibility			✓	
11-1315-01	E-98	Cash Management			✓	
11-1315-02	E-99	Subrecipient Monitoring			✓	
11-1315-03	E-100	Subrecipient Monitoring			✓	
11-1315-04	E-102	Procurement and Suspension and Debarment			✓	
11-1401-01	E-103	Davis-Bacon			✓	
11-1401-02	E-104	Special Tests and Provisions			✓	
11-1403-01	E-106	Subrecipient Monitoring			✓	
11-1530-01	E-108	Procurement and Suspension and Debarment			✓	
11-1530-03	E-109	Subrecipient Monitoring/ Activities Allowed/Allowable Costs			✓	

**Gaps in the sequence of finding numbers result from matters that are not required to be reported in accordance with OMB Circular A-133.*

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Section III – Federal Findings, Questioned Costs and Corrective Action Plan

MEDICAID CLUSTER

(11-1106-01)

Title: Controls over prompt payment requirements need improvement

Prior Year Finding: 10-1106-14
State Department: Health and Human Services (DHHS)
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA;
05-1105ME5MAP; 05-1105ME5ARRA

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: American Recovery and Reinvestment Act (ARRA) of 2009 §5001(f)(2); Technical guidance provided by Centers for Medicare and Medicaid Services (CMS)

Condition: Non-Medicaid claims were incorrectly included in the population of claims used to determine whether prompt payment requirements were met. The RAC (Recipient Aid Category) code field in claims data was used as a method for filtering non-Medicaid claims. We identified three RAC code types related to State-only funding that were not filtered from the claims used to generate the report. We also determined that the use of the RAC code for identifying Medicaid-only claims would not provide complete and accurate results.

Context: In order to claim enhanced Federal Medical Assistance Percentages (FMAP) provided by ARRA, 90% of clean claims must be paid by the State within 30 days of receipt and 99% must be paid within 90 days. Claims received on days of non-compliance are not eligible for the increased FMAP.

Cause:

- Maine processes claims for multiple state and Federal programs. The program under which a particular claim is paid is not readily determinable without obtaining accounting information.
- DHHS did not follow the Prompt Payment Implementation Guidance provided by CMS.

Effect:

- The inclusion of non-Medicaid claims in the agency's self-determination of compliance causes the results to be inaccurate and unreliable
- Potential disallowance of enhanced ARRA funding

Recommendation: We recommend that the Department redesign programming code to exclude non-Medicaid claims from the calculations used to determine compliance with prompt payment requirements. We further recommend that the Department reevaluate prompt payment compliance after programming changes are implemented.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

During the third quarter of State fiscal year 2012, Office of MaineCare Services and Financial Staff met and decided on an alternate approach. As the criteria for selecting activity to be included in the prompt payment calculation, the State will direct Molina to only use claims with Federal Unit Codes that are reported on the CMS-64. This is a much more reliable method than using the Rate or RAC Code.

However, we do not believe there will be a disallowance of ARRA funding, because the Center for Medicare and Medicaid Services has not verified the proper calculation to use for this determination.

Contact: *Colin D. Lindley, Director, Maine Care Finance, 287-1855*

(11-1106-02)

Title: Federal share of paid claims overstated

Prior Year Finding: 10-1106-02
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA;
05-1105ME5MAP; 05-1105ME5ARRA

Compliance Area: Activities allowed or unallowed
Allowable costs/Cost principles
Reporting

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: State Medicaid Manual (Chapter 2, §2500(D)(2)); Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) - 2 CFR Part 225

Condition: The Department's claims adjustment methodology was not consistent with Centers for Medicare and Medicaid Services' (CMS) interpretation of the regulations. Incorrect Federal Medical Assistance Percentages (FMAP) were used in calculating the adjustments. As a result, the State submitted claims for reimbursement in excess of amounts allowed.

Context: On the fiscal year 2011 CMS-64 reports, claims adjusted for a prior period were incorrectly reported at the current FMAP rate as current period expenditures resulting in current period expenditures being over reported and prior period expenditures being under reported.

Cause: Maine's Medicaid claims system was not designed to comply with the CMS interpretation of the Federal regulations related to claims adjustments.

Effect:

- Potential disallowances
- Inaccurate Federal financial reports
- Noncompliance with Federal regulations
- In the aggregate, General Fund expenditures are understated while Federal Fund expenditures are overstated

Recommendation: We recommend that the Department develop procedures to ensure claims adjustments are processed and reported in compliance with CMS' interpretation of the Federal regulations.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

As indicated in last year's action plan the Department has had discussion with CMS. Since that time the Office of Inspector General has begun a review on claims adjustments processed. Until this review has been completed and a final recommendation has been issued and agreed upon it would be premature to implement any changes. Because the adjustment of claims would involve significant changes to the current claims system it is not likely this will happen in State fiscal year 2012.

Contact: *Colin D. Lindley, Director of MaineCare Finance, 287-1855*

MEDICAID CLUSTER

(11-1106-03)

Title: Procedures relating to uncashed checks need improvement

Prior Year Finding: 10-1106-12
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA;
05-1105ME5MAP; 05-1105ME5ARRA

Compliance Area: Allowable costs/Cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: \$26,024

Likely Questioned Costs: Undeterminable

Criteria: Treatment of uncashed or canceled (voided) Medicaid checks (42 CFR §433.40(c)); Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) - 2 CFR Part 225

Condition: The Department did not credit the Federal government with a proportionate share of checks uncashed beyond 180 days from issuance on the CMS-64 Federal expenditure report on a quarterly basis.

Context: Currently, the Department only reviews checks that remain uncashed beyond 180 days from issuance on an annual basis with a one-year lag time.

Cause:
- Lack of knowledge of federal requirement
- Failure to establish a process that will provide the information needed to report on the quarterly CMS-64 report

Effect: Potential current and future disallowances

Recommendation: We recommend that the Department establish procedures to credit the Federal government on a quarterly basis for the proportionate share of checks uncashed beyond 180 days from issuance.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The Office of MaineCare Finance and Controller's Office staff have met on this issue to define the quarterly report specifications. The only outstanding step towards implementation is a follow-up meeting with staff in the Treasurer's Office to complete the process. This process will be completed by June 30, 2012.

Contact: *Colin Lindley, Director, MaineCare, 287-1855*

(11-1106-04)

Title: Controls over pharmacy claims processing system need improvement

Prior Year Finding: 10-1106-09
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP; 05-1105ME5ARRA; 05-1005ME5021; 05-1105ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/Cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: MaineCare Benefits Manual §80; Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) - 2 CFR Part 225

Condition: Pharmacy claims processing systems controls are not adequate to ensure compliance with program requirements. We noted the following:

- OMS does not provide adequate oversight to ensure the appropriateness of the override of rejected claims.
- Maine Maximum Allowable Cost (MMAC) prices recorded in the Maine Point of Purchase System (MEPOPS) pharmacy system are not periodically reviewed and verified.
- Federal Upper Limit (FUL) prices are ignored when considering the lowest reimbursement rate for brand-name drugs.

- No reconciliation is performed to ensure member eligibility data is transferred completely and accurately from the Maine Integrated Health Management Solution (MIHMS) to MEPOPS.

Context: In our test of pharmacy claims charged to the Medicaid and CHIP programs, 57% were paid using a MMAC price; the remaining 43% were paid using drug prices provided by Medi-Span and Centers for Medicare and Medicaid Services.

Cause: The Department has relied on a contractor to have appropriate controls in place over the processing of pharmacy claims without adequate oversight.

Effect:

- Rejected claims could be erroneously approved
- Drugs may be paid at a higher rate than necessary
- Noncompliance with State and Federal rules and regulations
- Claims may be paid on behalf of an ineligible member
- Current and possible future questioned costs

Recommendation: We recommend that the Department strengthen monitoring activities of and provide additional guidance to the pharmacy claims contractor to ensure that claims are processed in accordance with State and Federal rules and regulations.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this recommendation.*

The Department had planned on an oversight process in July of 2011. Due to a delay in system implementation the Department is starting this oversight in March of 2012. The new system required Goold to upgrade the pharmacy point of sale to a standard HIPAA electronic transaction called NCPDP D.0. Implementation was delayed to coincide with the upgrade of the Medicaid Management Information System which was also required for HIPAA electronic standards called 5010. Reports are being created that allows staff to monitor the activities of the Pharmacy Benefits Manager (PBM). And the department has assigned the quality assurance group oversight of pricing and claims for the PBM where they will have direct access to the system to monitor live claims for accuracy.

The Department did incorporate Federal Upper Limit (FUL) changes when they became available in 2004. CMS declared that a state's aggregate payment for all Medicaid prescription drugs with a FUL must not exceed, in the aggregate, the payment levels established by the FUL program. The aggregate cap allows states to increase or decrease the cost of individual prescription drugs in accordance with state or local markets while maintaining the overall savings created by the FUL program. States may exceed the FUL price for individual prescription drugs as long as their aggregate expenditures do not exceed the amounts that would have otherwise been spent by applying the FUL limit plus a reasonable dispensing fee.

***Contact:** Jennifer Palow, Pharmacy Director, 287-2705*

MEDICAID CLUSTER

(11-1106-05)

Title: Inconsistent application of the Medicaid provider desk review process

Prior Year Finding: 10-1106-03
State Department: Health and Human Services
State Bureau: Division of Audit
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA;
05-1105ME5MAP; 05-1105ME5ARRA

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Chapter 101 of the MaineCare Benefits Manual (Chapter III, §67, subsection 34.1.2 of the Principles of Reimbursement for Nursing Facilities)

Condition: Established control procedures were not followed to ensure the timely issuance of nursing facility desk reviews. A test of eleven nursing facility desk reviews issued during the audit period revealed that four were not completed within the established 180 day time frame succeeding the acceptance of the cost report and/or a request for additional information. The span of the untimely desk audits ranged from a low of 13 to a high of 212 days.

Context: Medicaid paid $197 million to 115 nursing facilities during fiscal year 2011.

Cause: Lack of staff

Effect:

- Noncompliance with cost report review requirements promulgated in the principles of reimbursement
- Delays in the preparation and issuance of cost settlements resulting in amounts due the State or the provider

Recommendation: We recommend that the Division of Audit consistently apply established monitoring procedures to the nursing home desk review process in order to provide reasonable assurance that they be completed within the established 180 day time frame.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this recommendation.*

The Division of Audit utilizes status reports to track the 180 day time frame. The Division will assign Nursing Facility cost reports for desk review and monitor these status reports monthly in our staff meetings beginning in April 2012. The Division of Audit will make every effort to comply with the 180 day time frame. However, staffing shortages will make compliance difficult.

In addition, there are other factors that cause delays in the issuance of desk reviews, such as delays in obtaining necessary information from a provider, and audit findings that are under appeal and affect the subsequent period desk review.

Contact: *David Hellmuth, MaineCare Audit Manager, 287-2809*

(11-1106-06)

Title: Procedures relating to the hospital cost reporting process need to be improved

Prior Year Finding: 10-1106-04
State Department: Health and Human Services
State Bureau: Division of Audit
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA;
05-1105ME5MAP; 05-1105ME5ARRA

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Chapter 101 of the MaineCare Benefits Manual (Chapter III, §45.02-5); 42 CFR §413.24(f)(2)(ii)

Condition: Controls are inadequate to ensure the timely submission of hospital cost reports. Cost reports are due on or before the last day of the fifth month following the close of the period covered by the report. A test of 11 hospital facility desk reviews issued during the audit period revealed that seven of the 11 cost reports were not submitted within the established time frame. The number of days late ranged from a low of one day to a high of 110 days.

Context: Medicaid paid $366.4 million to 41 in-state hospitals during fiscal year 2011.

Cause: Lack of available funding for cost settlements

Effect:

- Noncompliance with cost report submission requirements promulgated in the State's principles of reimbursement and the Code of Federal Regulations
- Delays in the preparation and issuance of cost settlements resulting in amounts due the State or the provider

Recommendation: We recommend that the Division of Audit strengthen controls over the hospital cost reporting process in order to provide reasonable assurance that they be submitted and received in a more timely fashion.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this recommendation.*

As of April 1, 2012, the Division of Audit is establishing a new process of notifying the hospitals in writing 30 days before their cost report is due. If a cost report is not received timely, the Division of Audit will contact the hospital to determine if good cause exists for the delay in the filing.

Failure to submit an adequate, complete cost report is grounds for the Department to impose sanctions pursuant to the MaineCare Benefits Manual Chapter I, Section I. Imposition of these sanctions will be considered on a case by case basis.

Contact: *Herb Downs, Director, Division of Audit, 287-2778*

MEDICAID CLUSTER

(11-1106-07)

Title: Procedures to ensure payments are made from the correct Federal program need improvement

Prior Year Finding: 10-1106-15
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP;
05-1105ME5ARRA; 05-1005ME5021; 05-1105ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/Cost principles
Reporting

Type of Finding: Questioned costs

Known Questioned Costs: $223,793 (Medicaid)

Likely Questioned Costs: $223,793 (Medicaid)

Criteria: State Medicaid Manual (Chapter 2 Section 2500.2(D)); Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) - 2 CFR Part 225
Condition: Payments were made for family planning services on behalf of clients eligible for CHIP; however, the Department claimed these costs on Medicaid's CMS-64 expenditure report at a higher Federal reimbursement rate than was allowed. We expanded our testing and found over 7,000 claims where this error occurred resulting in $223,793 in questioned costs.

Context: Medicaid and CHIP are Federal/State-funded programs totaling $2.5 billion. Of this total, approximately $1.7 billion in medical and pharmacy claims were processed through the claims payment systems in State fiscal year 2011.

Cause:

- A design flaw in the Medicaid claims system fund allocation matrix resulted in CHIP family planning claims being incorrectly charged to the Medicaid program.
- Control procedures were not in place to ensure that CHIP family planning claims were reported correctly.

Effect:

- Costs are overcharged to Medicaid and may be undercharged to other State or Federal programs including CHIP
- Current and possible future questioned costs
- Noncompliance with Federal regulations

Recommendation: We recommend that the Department ensure only allowable payments are made from the correct Federal program and reported at the correct reimbursement rate.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

The Department is working to correct the claims management system to ensure that CHIP family planning claims are correctly fund allocated and reported to the appropriate federal program. We expect corrective action to occur during calendar year 2012.

Contact: *Colin D. Lindley, Director of MaineCare Finance, 287-1855*

(11-1106-08)

Title: Medicare Part B eligibility verification procedures need improvement

Prior Year Finding: 10-1106-01
State Department: Health and Human Services (DHHS)
State Bureau: Office for Family Independence
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA;
05-1105ME5MAP; 05-1105ME5ARRA

Compliance Areas: Eligibility

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: U.S. Department of HHS, State Buy-In Manual; 42 CFR §431.625 Coordination of Medicaid with Medicare Part B; 45 CFR §92.20

Condition: Procedures were not adequate to ensure that Medicare Part B premiums paid to the Centers for Medicare and Medicaid Services (CMS) are made only for eligible individuals. System controls to detect and re-assess eligibility for Medicare Buy-In need improvement and a

reconciliation process between CMS, Social Security Administration (SSA) and Automated Client Eligibility System (ACES) eligibility records should be implemented.

Context: Maine DHHS paid $119.8 million to CMS for Medicare Part B premiums in fiscal year 2011.

Causes:
- Inadequate oversight of Part B expenditures
- System edits in the ACES are not adequate to detect or remediate inconsistent information received from CMS or the SSA
- DHHS methods used to process manual eligibility decisions did not always reflect appropriate State or Federal requirements and were not subject to review.

Effect: Medicare Part B payments may be made on behalf of ineligible individuals and result in higher than necessary Federal and State expenditures.

Recommendation: We recommend that the Department develop electronic matching and reconciliation procedures to provide assurance that Medicare Part B premium payments are correct.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services disagrees in part with this repeat finding.*

*As previously noted in finding **(10-1106-01)** the ACES system is designed to detect and re-assess eligibility for the Medicare Buy-In. The Department does believe that it has adequate controls in place to manually re-establish Buy-In for clients. The Department will implement a full rewrite of the Buy-In automated process that will reduce the need for manual re-establishment of Buy-ins by June 30, 2012. Additionally, the Department has in place an operating memorandum that regional staff refer to when requesting a manual Buy-In.*

The Department agrees that better accountability needs to be established to correct errors and reduce unallowable charges. The Department's Management Information Systems unit has been working collaboratively with the finance department to build a reconciliation process that will allow the Department to dispute errors and inconsistencies within the allowable 2 month time frame allotted by CMS. Resource constraints have pushed the anticipated implementation of this process to the second quarter of State fiscal year 2013.

Contact: *Anthony Pelotte, Division Director MIS/QA/EBT, 287-3460*

Auditor's Conclusion: For instances we tested, the system did not always detect or reassess eligibility when State records to support Medicare Part B (Buy-In) eligibility were inconsistent with Medicare information electronically interfaced from CMS or the SSA. Additionally, methods to process some manual eligibility decisions can be complex. These cases should be subject to adequate supervisory review. However, we agree that implementation of a rewrite of the Buy-In automated process should mitigate potential eligibility errors.

The finding remains as stated.

MEDICAID CLUSTER

(11-1106-10)

Title: Procedures to ensure timely submission of Medicaid Eligibility Quality Control (MEQC) six month summary reports need to be improved

Prior Year Finding: 10-1106-17
State Department: Health and Human Services
State Bureau: Office for Family Independence
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA;
05-1105ME5MAP; 05-1105ME5ARRA

Compliance Area: Eligibility

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Case Review Completion Deadlines and Submittal of Reports (42 CFR §431.816)

Condition: The MEQC unit does not have adequate procedures in place to ensure that required error reports are submitted to the Centers for Medicare and Medicaid Services (CMS) on a timely basis. The six-month summary report due Jan 31, 2011 was submitted on July 18, 2011.

Context: The six month summary reports have not been submitted on time for several years.

Cause: Unfamiliarity with reporting requirements

Effect: Federal sanctions could result from noncompliance with report submission requirements

Recommendation: We recommend that the MEQC unit implement procedures to ensure that required error reports are submitted to CMS on time.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The Office for Family Independence (OFI) already has developed and implemented a schedule process as a result of a previous finding and is currently making timely submission of the MEQC six-month report.

Contact: *Anthony Pelotte, Division Director MIS/QA/EBT, 287-3460*

MEDICAID CLUSTER

(11-1106-11)

Title: The Decision Support System/Data Warehouse (DSS/DW) is not reconciled to the Statewide accounting system

Prior Year Finding: No
State Department: Health and Human Services (DHHS)
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP; 05-1105ME5ARRA; 05-1005ME5021; 05-1105ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/Cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) - 2 CFR Part 225, Section C(1)(j))

Condition: The Department does not have procedures in place to routinely reconcile the DSS/DW to the Statewide accounting system. In addition, the DHHS finance unit was not able to provide the support necessary to reconcile the DSS/DW to the State accounting system for fiscal year 2011.

Context: The Maine Integrated Health Management Solution (MIHMS) system processes Medicaid claims totaling approximately $2.5 billion per year. It is a high risk and complex information system that connects various commercial-off-the-shelf software. The electronic information associated with MIHMS is retrieved by and stored in the DSS/DW.

Cause: State personnel have not developed an understanding regarding how to reconcile the DSS/DW to the Statewide accounting system.

Effect: Not validated or faulty information in the DSS/DW could potentially lead to wrong decision-making or administrative inefficiencies.

Recommendation: We recommend that a monthly reconciliation of the DSS/DW to the Statewide accounting system be performed. This reconciliation should address both dollars and file counts.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services disagrees with this Finding*.

The Department on a routine basis reconciles queries performed within the Decision Support System to the Advantage ME (our system of record). The Department takes exception to what has been identified as the Cause and Effect that resulted in this recommendation.

Contact: *Colin D Lindley, Director, MaineCare Finance, 287-1855*

Auditor's Conclusion: Weekly information is compiled by the MIHMS system for interface to the Statewide accounting system. This weekly information is summarized by the Fiscal Agent according to State general ledger accounts. State personnel ensure that summary records transmitted by MIHMS to the State are properly recorded in the State accounting system.

The summary information in the accounting system, however, is not adequate for management purposes. For this reason, a component of the MIHMS system is the DSS/DW. The integrity of the DSS/DW is fundamental to good decision-making, good surveillance and utilization review, and thorough analysis supporting potential third party recoupments. It is one of the three major components of MIHMS identified in the Conceptual Design Specification Document.

It is essential that the accumulated information in the DSS/DW be reconciled monthly and cumulatively to the Statewide accounting system. The reconciliation is especially critical in the start-up year of a new Medicaid system.

Despite extensive inquiry of MaineCare personnel and extensive examination of documents, we did not find that procedures exist to reconcile the store of information in the DSS/DW to the store of information in the Advantage accounting system over a period of time (i.e. a year).

The finding remains as stated.

(11-1106-12)

Title: Provider eligibility procedures need improvement

Prior Year Finding: 10-1106-11
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP; 05-1105ME5ARRA; 05-1005ME5021; 05-1105ME5021

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 42 CFR §431.107(b)(4) - *Advance Directives*
Section 1902(9)(A) of the Social Security Act - *Health Standards*
Request for Proposal (RFP) associated with Fiscal Agent, sections 4.22.5.3.1.2, 4.22.5.3.1.10, 4.22.5.3.1.1, *Automation/Data Exchange/Interface*

Condition: The new Maine Integrated Health Management Solution (MIHMS) system does not automatically cross-reference license, accreditation, and sanction information, nor does it support automated data exchanges with the Center for Medicare and Medicaid Services, the Drug Enforcement Agency, and other sources. Provider enrollment personnel employed by the fiscal agent must manually link to numerous websites to query sanction and license information that will affect enrollment. This process is inherently subject to human error due to the size and complexity of Medicaid.

The electronic claims adjudication process did not verify whether a provider was licensed prior to payment. However, no instances of payments to unlicensed providers were detected in a sample of 60 providers.

In addition, MaineCare has not developed procedures to include advance directive requirements in the Provider Agreement, and does not have procedures in place to establish and maintain health standards for federally qualified health centers and rural health centers.

Context: The provider enrollment process was particularly challenging in fiscal year 2011 because all providers were re-enrolled as part of the implementation of a Medicaid Management Information System (MMIS) on October 1, 2010 operated by a fiscal agent. Prior to this date claims were processed by State personnel using a State-owned system.

Cause: The fiscal agent did not comply with Section 4 of the Request for Proposal that enumerates their responsibilities for automation, data exchange, and interface. In addition, MaineCare personnel were not aware of requirements related to advance directives, nor were they aware of the requirement to establish and maintain health standards for federally qualified health centers and rural health centers.

Effect:

- Potentially ineligible providers being allowed to participate in the program
- Potential questioned costs and disallowances
- Noncompliance with required provider documentation requirements
- Noncompliance with the requirement to establish and maintain health standards for federally qualified health centers and rural health centers

Recommendation: We recommend that the program enrollment process be consistent with the requirements for automation, and data exchange and interface contained in the fiscal agent's response to the State's Request for Proposal. In addition, we recommend that the Department modify provider enrollment forms and provider agreements to meet the advance directive requirements. We also recommend that the State establish and maintain health standards for federally qualified health centers and rural health centers.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

In the 42 CFR §431.107(b)(4)section of the finding, this information has not been in the MaineCare Provider Agreement. We have a draft provider agreement that is in a final review that has this information added.

In the Section 1902(9)(A) section of the finding, MaineCare is reviewing policy to clearly outline the requirements for FQHC's and RHCs. We anticipate corrections will be completed by June 30, 2012.

In the finding Section 4.22.5.3.1.2, 4.22.5.3.1.10, 4.22.5.3.1.1., Automation/Data Exchange/Interface, the electronic claims adjudication process did not verify whether a provider was licensed prior to payment. This process has been corrected. The feature is now working and pending claims if either the license or certification is expired. Claims pend for up to 21 days. If the license or certification is found to have been renewed, claims are released for processing. After 21 days, if they are not renewed, the claim is denied.

The Department will move forward with Change Requests related to the automation requirements.

Contact: *Beth Ketch, Customer Service Director, 287-4078*

MEDICAID CLUSTER

(11-1106-13)

Title: Procedures need to be implemented to ensure that the MaineCare Fiscal Agent complies with provisions relating to information technology risk assessment and system security reviews

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP; 05-1105ME5ARRA; 05-1005ME5021; 05-1105ME5021

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Contract with MaineCare Fiscal Agent, Security Specification Document, p. 8

Condition: The State's MaineCare fiscal agent (FA) did not perform a systematic risk assessment to formally evaluate critical risk areas associated with the new claims management system, the Maine Integrated Health Management Solution (MIHMS). The contract explicitly requires the FA to conduct quarterly and annual reviews over 24 high risk areas. These critical areas include but are not limited to physical, equipment, and network security; and the risks associated with personnel, contingency plans, and emergency preparedness.

Context: The MIHMS system processes Medicaid claims totaling approximately $2.5 billion per year. It is a high risk and complex information system that connects various commercial-off-the-shelf software.

Cause: Rapid change in the MaineCare business environment due to the replacement of the previous Medicaid management information system, high turnover of MaineCare personnel, and competing priorities.

Effect: Lack of a scheduled and systematic risk assessment process could have a negative effect on the utility of the system, business continuity and financial exposure. It could also potentially lead to fraud or disclosure of personal health information.

Recommendation: We recommend that the Department ensure that the fiscal agent complies with contractual requirements.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding:*

The Department will ensure that all quarterly and annual Risk Assessments are completed as specified in the Security Plan and are formally documented. Resolution of all critical issues identified during the assessments will be formally documented, assigned for resolution and tracked using the Management Issue process.

Changes in equipment and processing sites, since the system was implemented in 2010, have required the State and Fiscal Agent(FA) to be even more vigilant with security and has required close monitoring and discussion on a more frequent basis than was specified within the Contract. Staffing and personal issues are also addressed on a daily basis with Molina.

The FA has done 2 formal security reviews by a third party vendor, one approved by State, 8/30/10, before the September 2010 'go-live' and one approved by the State 1/11/12 prior to the January 2012 migration to the New Mexico Data Center. These were a part of the State's Deployment Certification Process which covers many of the security areas specified in the Contract/Security Plan. Changes to sites have required additional deployment certifications and testing.

Additionally the FA had an independent Type II audit performed by Ernst and Young mid-2011. The State has requested a copy of that report for review.

Due to the changes in equipment and processing sites and system issues since the system was implemented in 2010 the State and FA have continually reviewed the security areas to ensure that all security issues have been addressed. Security testing has continued within SIT and UAT testing and deployment certification testing. Disaster Recovery testing plans and business continuity plans are in the process of being updated by the FA and reviewed by the State for adherence to the Contract.

Contact: *Jennifer Palow, Pharmacy Director, 287-2705*

(11-1106-14)

Title: Procedures need to be implemented to ensure correct reimbursement rates are paid to providers and cost of care is properly deducted

Prior Year Finding: 10-1106-10
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP; 05-1105ME5ARRA; 05-1005ME5021; 05-1105ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/Cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) - 2 CFR Part 225; MaineCare Benefits Manual §67, 90 and 101; MaineCare Eligibility Manual, Part 14

Condition: Providers were paid at incorrect reimbursement rates. Additionally, cost of care was not always properly deducted. In a test of 120 paid claims, we noted the following:

- The incorrect fee schedule was used by the Maine Integrated Health Management Solution (MIHMS) system to pay two claims.
- An incorrect bill type code for two claims resulted in the cost of care not being properly deducted.
- MIHMS reprocessed claims using an outdated cost of care assessment.
- Medical imaging services rates were incorrectly set up in the Maine Claims Management System (MECMS) to pay claims based on conversion factors instead of the lowest amount allowable. (The MECMS system was replaced with the MIHMS system in September 2010.)

MEDICAID CLUSTER

Context: Medicaid and CHIP are Federal/State-funded programs totaling $2.5 billion in aggregate. Of this total, approximately $1.4 billion in medical claims were processed through MECMS and MIHMS in State fiscal year 2011.

Cause:
- Provider billing errors
- System errors

Effect: Potential disallowed costs

Recommendation: We recommend that the Department ensure:
- Providers understand and utilize proper billing practices to receive correct reimbursement
- That the necessary system corrections are made, including establishing controls to properly deduct cost of care when applicable

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The DHHS has contracted with Molina as its fiscal agent for the Maine Integrated Health Management System. The implementation was completed September 1, 2010. Rate Setting is working with the fiscal agent to ensure that the MIHMS has the correct rates. All reimbursement rates are being documented, referenced to the applicable Federal/State regulations and retained for audit purposes.

In addition, the defect in the system concerning the cost of care issues has been identified and will be corrected by December 31, 2012.

***Contact:** Jennifer Palow, Pharmacy Director, 287-2705*

MEDICAID CLUSTER

(11-1106-16)

Title: Incorrect client eligibility determinations

Prior Year Finding: 10-1106-16
State Department: Health and Human Services (DHHS)
State Bureau: Office for Family Independence (OFI)
Office of MaineCare Services (OMS)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP;
05-1105ME5ARRA; 05-1005ME5021; 05-1105ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/Cost principles
Eligibility

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: None (Medicaid)
Undeterminable (CHIP)

Likely Questioned Costs: None (Medicaid)
Undeterminable (CHIP)

Criteria: MaineCare Eligibility Manual; State Plan for Medicaid and State Plan for CHIP

Condition: The Department does not have adequate procedures to determine individual eligibility for the Medicaid and CHIP programs, to maintain records relevant to making eligibility determinations or to charge the appropriate program for the associated costs of eligible individuals. We noted the following:

- One CHIP client was incorrectly deemed eligible for Medicaid Expansion. This client had income above the 150% Federal Poverty Level (FPL), which would have made the client eligible for CubCare, rather than Medicaid Expansion.
- One CHIP client was incorrectly deemed eligible for CubCare. This client had income below the 150% FPL, which would have made the client eligible for Medicaid Expansion, rather than CubCare.
- Two CHIP clients were incorrectly deemed eligible for Medicaid Expansion. Both of these clients had incomes below the 126% FPL, which would have made them eligible for Medicaid, rather than Medicaid Expansion.
- One Medicaid client's eligibility was based on the eligibility of a child. As the child was "aged" out of Medicaid, eligibility for the parent ended as well. However, subsequent payments were made on behalf of the client.
- In our test of paid claims, we identified two more instances where payments were made on behalf of ineligible clients. One Medicaid client was deemed ineligible because the

client failed to provide income verification. A CHIP client was ineligible because they had previously informed the Department that they no longer required MaineCare coverage.
- In another instance identified in our test of paid claims, we found that a claim had been paid on behalf of a Medicaid client determined eligible only after the claim had been paid.

Context: The Automated Client Eligibility System (ACES) determines eligibility for the Department's public welfare programs. ACES eligibility information interfaces with the Data Hub which in turn links with the claims management system to facilitate the payment of claims.

Cause:
- The administration of multiple federal and State programs under the umbrella of the MaineCare program does not always foster a clear and readily determinable delineation regarding the categorization of eligible clients for specific federal or State funded benefits.
- The distinct segregation of essential eligibility, payment, accounting and information technology functions within the same Department engenders a division of responsibility which impedes problem recognition and resolution. Two DHHS offices, OFI and OMS along with the Department of Administrative and Financial Services' Office of Information Technology and an outside contractor are responsible for various aspects of the client eligibility determination and associated claims payment processes.
- Complex methods and criteria used to classify the underlying reasons that individuals are deemed eligible or ineligible
- Caseworker error
- A reconciliation of eligibility data from the Data Hub system and the Maine Integrated Health Management Solution (MIHMS) system, identified differences which were not resolved. The Data Hub system is the conduit through which DHHS eligibility information flows to MIHMS.

Effect:
- Costs may be charged to an incorrect State or federal program
- Costs paid on behalf of ineligible individuals reduce funds available for those eligible
- Eligibility errors may result in significant noncompliance with federal regulations
- Current and possible future questioned costs

Recommendation: We recommend that the Department:
- Strengthen procedures to ensure that Medicaid and CHIP client eligibility determinations are appropriately established in the relevant information systems
- Provide resources necessary to resolve differences between Data Hub and MIHMS with respect to eligibility data.

Management's Response/Corrective Action Plan: *The Department agrees with the findings outlined in this audit.*

With regard to the finding that a client was incorrectly determined eligible for Medicaid Expansion and instead should have been eligible for CubCare, the Department agrees. It appears this determination occurred due to a doubling of the allowable child care expense ($175). OFI has confirmed through an investigation of other cases involving a similar expense that this was a one-time, unexplainable event and not a re-occurring event.

The findings related to cases that were incorrectly determined eligible for either Medicaid Expansion, CubCare, or Medicaid instead of the other were found to be worker errors.

Regarding the findings involving paid claims made on behalf of ineligible Medicaid clients, ACES correctly determined the clients ineligible prior to the dates of service in question. The claims were incorrectly paid due to a now identified ineligible segment issue in the claims interface process.

Regarding complex methods and criteria used in eligibility determination, specifically the verification date of income records, the Department will be taking action before the end of State fiscal year 2012 to rename the field to better describe its purpose.

Contact: *Dale Denno, Director, Office for Family Independence, 287-5083*

FOSTER CARE – TITLE IV-E

(11-1109-01)

Title: Procedures to ensure payments are made only for allowable activities need improvement

Prior Year Finding: 10-1109-06
State Department: Health and Human Services
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care (IV-E)
CFDA #: 93.658
Federal Award #: 1101ME1401

Compliance Area: Activities allowed or unallowed

Type of Finding: Questioned costs

Known Questioned Costs: $11,214

Likely Questioned Costs: $24,935
Likely questioned costs were computed by applying the error rate in the sample (48%) to the total population of expenditures coded to the specific expenditure categories tested ($74,561). The result was then multiplied by the blended Federal medical assistance percentage (69%).

Criteria: 42 USC §675 Definitions and 45 CFR §1356.60 Fiscal requirements (IV-E)

Condition: The Department did not ensure that all miscellaneous maintenance payments were made for allowable activities. The Foster Care program incurred costs on behalf of program participants for medical payments and certain legal fees that were not allowable costs of the program. We found that 29 of 60 payments charged to specific expenditures categories were for unallowable activities.

Context: Miscellaneous payments made in fiscal year 2011 totaled $724 thousand of which approximately $75 thousand were charged to the specific expenditure categories tested.

Cause:
- Unfamiliarity with program requirements
- Lack of training

Effect:
- Payments made for unallowable activities
- Current and potential future questioned costs
- Noncompliance with program requirements

Recommendation: We recommend that the Department provide adequate training regarding invoice coding and allowable activities.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

Changes made to the Maine Automated Child Welfare System were put in place in July 2011 and additional training was provided to the Financial Services staff in July and again in the Fall. These preventative measures were done as a further attempt to reduce the coding error rate. Moving forward we will continue to review the OCFS title IV-E account and make adjustments as necessary when errors are found as well as provide training to DHHS Financial Staff as requested.

The MACWIS changes consisted of the development of an account code string generator which is programmed to follow the Title IV-E rules and presents to the user the appropriate funding coding for child welfare bill processing. All of the information regarding a child's eligibility to access Title IV-E funding is held within MACWIS. After entering the dates of service provided on the invoice, the system will validate whether a child was eligible for IV-E funding at the time of the service. A list of Title IV-E eligible services is presented to the worker for selection and if one of those services is selected the Title IV-E funding codes are presented to the worker for use. If the child was not eligible to receive funding or if the service purchased was not eligible for IV-E funding, the system will present an appropriate non-IV-E funding code string. The use of the CW Coding generator is not required, as flexibility was needed in the system for other non-child welfare services that are processed in MACWIS, but is strongly advised for all child welfare purposes.

Contact: *Dan Despard, Director, Child Welfare Policy, 624-7950*

(11-1103-01)

Title: Cost allocation plan error

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Supplemental Nutrition Assistance Program (SNAP) Cluster
CFDA #: 10.551; 10.561
Federal Award #: 4ME400401

Compliance Area: Allowable costs/Cost principles

Type of Finding: Questioned costs

Known Questioned Costs: $21,815

Likely Questioned Costs: $21,815

Criteria: General Administration – Cost Allocation Plans (45 CFR §95.507, §95.519)

Condition: The SNAP Cluster was overcharged due to an error used to allocate costs related to the Office for Family Independence (OFI). OFI costs are supposed to be allocated based on the average case counts of the three months in the quarter. For the first quarter of the fiscal year 2011, average case counts for May and June were used instead of the average for July, August and September.

Context: $7.1 million of costs related to OFI were allocated among various DHHS programs.

Cause: Staff turnover

Effect: Not properly allocating costs could result in the following issues with Federal assistance programs:

- Inaccurate financial reports
- Potential unallowable costs claimed
- Possible match deficiencies
- Programs may not be charged their fair share of allocated costs

Recommendation: We recommend that the Department utilize case counts for the appropriate time frame when allocating OFI costs.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

As of July 1, 2011 the Service Center added a level of scrutiny on the underlying formulas and links in the supporting documentation to prevent this error from reoccurring. In addition the current model is being upgraded to make the process more automated in the future to reduce the potential for human error. The new model is anticipated to go into effect on July 1, 2012.

The SF269 for Federal fiscal year 2010 will be revised in March 2012, to accurately reflect the return of Federal funds due to the SNAP cluster being overcharged for allocated costs.

Contact: *Douglas Averill, Deputy Director, 557-3082*

TANF CLUSTER

(11-1111-01)

Title: Income and Eligibility Verification System procedures need improvement

Prior Year Finding: 10-1111-01
State Department: Health and Human Services
State Bureau: Office for Family Independence
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families (TANF) Cluster
Medicaid Cluster
Supplemental Nutrition Assistance Program (SNAP) Cluster
CFDA #: 93.558; 93.714; 93.775; 93.777; 93.778; 10.551; 10.561
Federal Award #: 1002METANF; 1102METANF; 1001METAN2; 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP; 05-1105ME5ARRA; 4ME400401; 4ME420408; 4ME430401; 4ME440401

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Income and Eligibility Verification System (42 USC 1320b-7); Requirements Governing the Use of Income and Eligibility Information (45 CFR §205.56); Maine Public Assistance Manual; Maine Medicaid Manual; Maine Food Stamp Certification Manual

Condition: The Department did not always utilize Income and Eligibility Verification System (IEVS) information when determining client eligibility. We noted that the Department:

- Failed to verify alien registration documentation from the U.S. Citizenship and Immigration Services through a designated automated system for 27 of the 60 non-United States citizen clients tested.
- Did not document that information obtained from the IEVS data matching was considered in determining eligibility and level of benefits for 18 of 60 clients tested.
- Did not utilize the "Quarterly Earnings Discrepancy Report" in determining eligibility and level of benefits.

Context: The Federal government requires that States utilize IEVS information when determining initial and continuing eligibility for several Federal assistance programs including Medicaid, TANF, and SNAP.

Cause: Lack of resources and oversight

Effect: Potential disallowed costs resulting from ineligible clients

Recommendation: We recommend that the Department:

- Follow procedures to ensure that non-United States citizen alien registration documentation is verified through a designated automated system.
- Document case action regarding IEVS information
- Implement procedures to ensure that the "Quarterly Earnings Discrepancy Reports" are reviewed.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding:*

Condition: Failure to verify alien registration documentation from the U.S. Citizenship and Immigration Services through a designated automated system.

Current process requires staff to verify all documentation from non-citizens through the SAVE system and change the verification type in ACES as "SAVE Verified" when a response is received. In response to this finding the Department will, by July 1, 2012:

1. *Remind staff of program requirements in an updated Operating Memorandum and provide training at the June 2012 State-wide Supervisor's Meeting.*
2. *Redesign the ACES screens that pertain to non-citizens in an effort to eliminate the confusion staff experiences when entering information.*

Conditions: Did not document that information obtained from the IEVS data matching was considered in determining eligibility and level of benefits.
And did not utilize the "Quarterly Earnings Discrepancy Report" in determining eligibility and level of benefits.

Current process requires staff to review discrepancies between IEVS computer matches and the information contained in ACES. Procedures require the worker take action to resolve discrepancies and document the case record to describe the action taken.
In order to improve the IEVS procedures the Department plans, by July 1, 2012, to:

1. *Consolidate the number of reports used to meet the IEVS requirement in an effort to reduce duplicate internal reports that contribute to the ineffectiveness of staff's ability to review pertinent information. The Department will produce a comprehensive list of the reports, their origin and information contained in them that are to be used to meet the IEVS requirement.*
2. *Create specific written instructions regarding IEVS procedures for each program and train staff. Staff training will occur during the June 2012 State-wide Supervisor's Meeting.*
3. *Set clear expectations for staff and will designate one contact person in each office to oversee the review of IEVS data.*
4. *Develop an effective tool to monitor progress on the review and documentation of IEVS information.*
5. *Research the feasibility of a technical solution to aid staff in the documentation of the use of IEVS information in the case record.*

Contact: *Dawn Mulcahey, TANF Program Manager, 287-6426*

TANF CLUSTER

(11-1111-02)

Title: Procedures to ensure accurate financial reporting need improvement

Prior Year Finding: 10-1111-02
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families (TANF) Cluster
CFDA #: 93.558; 93.714
Federal Award #: 1102METANF; 1001METAN2

Compliance Area: Reporting

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Data collection and reporting requirements (45 CFR §265(a) and (d))

Condition: The State's ACF-196 quarterly financial report for the period ending June 30, 2011 included a $3.5 million error. The error resulted in an overstatement of Federal basic assistance expenditures.

Context: Total TANF cluster expenditures for State fiscal year 2011 were $86.4 million

Cause: Staff turnover

Effect: Programmatic decisions could be based on inaccurate data

Recommendation: We recommend that the Department implement procedures to ensure accurate financial reports.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

The ACF-196 quarter 3 report for Federal fiscal year 2011 was revised on August 31, 2011, to remove the $3.5 million in expenditures. The Service Center has implemented a change in the review process for this financial status report; where an additional review requirement has been added onto the reviewer's checklist. This additional requirement will assist in ensuring all prior year activity has been removed preceding the submission of the financial status report.

Contact: *Veronica Robichaud, Managing Staff Accountant 287-4835*

CHILD CARE DEVELOPMENT FUND (CCDF) CLUSTER

(11-1114-01)

Title: Federal cash management procedures inadequate

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child Care and Development Fund (CCDF) Cluster
CFDA #: 93.596; 93.575; 93.713
Federal Award #: 0901MECCDF; 1001MECCDF; 1101MECCDF

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Post-Award Requirements, Standards for Financial Management Systems (34 CFR Subpart C §80); Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR Subpart B §205)

Condition: According to Federal regulations, programs not subject to the Treasury State Agreement on cash management are required to minimize the time between receipt and disbursement of Federal funds. In our review we noted that the program maintained cash balances in excess of immediate need in three of 12 months.

Context: The CCDF program expended approximately $18 million in Federal funds during fiscal year 2011.

Cause: Inadequate monitoring

Effect: The Federal government could impose more stringent cash management requirements on programs that do not comply with applicable regulations. In addition, the program could incur an interest liability to the Federal government.

Recommendation: We recommend that the Department establish procedures to monitor receipts and disbursements to ensure that grant funds are drawn only when necessary.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

Effective March 2012, the average day's cash on hand will be calculated and evaluated no less than once a month along with monitoring current expenses and its associated draws no less than weekly.

Contact: *Sarah Gove, Senior Managing Accountant, 287-6390*

(11-1114-04)

Title: Payroll costs not properly documented

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child Care and Development Fund (CCDF) Cluster
CFDA #: 93.596, 93.575, 93.713
Federal Award #: 0901MECCDF, 1001MECCDF, 1101MECCDF

Compliance Area: Allowable costs/Cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) - 2 CFR Part 225

Condition: The Department did not have adequate documentation to ensure that salaries and wages for employees who work on more than one program are properly distributed. Furthermore, salaries and wages for all employees who worked solely on this program were not supported by periodic certifications.

Context:

- All twelve employees whose compensation costs were charged 100% to the program did not certify their time.
- Both employees working on multiple activities did not have time and activity records to support the distribution their salaries and wages to the program.

Cause: Payroll system task codes were not assigned to program employees

Effect: Salaries and wages charged to the program may not be allowable

Recommendation: We recommend that the Department implement procedures to ensure that payroll costs are properly documented in accordance with Federal cost principles.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding:*

A semi-annual certification list will be generated identifying all staff charged to the program. A printed list of all staff in the program will be signed by the program manager/supervisor verifying work activities for the time frame covered. This will be done at the six month point in the grant (March) and at the end of the grant year (September), annually.

Contact: *Angie Bellefleur, Acting Director of Child Care Services, 624-7973*

(11-1114-05)

Title: Procedures to ensure payments were only made to approved providers need to be improved

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child Care and Development Fund (CCDF) Cluster
CFDA #: 93.596; 93.575; 93.713
Federal Award #: 0901MECCDF; 1001MECCDF; 1101MECCDF

Compliance Area: Allowable costs/Cost principles
Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: Less than $10,000

Likely Questioned Costs: Less than $10,000

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) - 2 CFR Part 225

Condition: The Department needs to improve procedures to ensure that payments were made only to providers with a current Child Care Subsidy Program (CCSP) Provider Agreement. This agreement also serves as a certification that health and safety standards have been met. Three of the 40 provider files tested did not contain a current, signed CCSP Provider Agreement and one file could not be located for review.

Context: $5.6 million was awarded to 898 providers

Cause: Lack of follow up by program personnel relating to agreement renewals

Effect:
- Payments were made to providers without current agreements
- No assurance that health and safety standards have been met

Recommendation: We recommend that the Department implement procedures to ensure that payments are made only to providers with current, signed CCSP Child Care Provider Agreements. Furthermore, we recommend that procedures are implemented to ensure providers return the signed CCSP Child Care Provider Agreements on a timely basis.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

On a quarterly basis, file reviews will be conducted on 10% of each staff member's case load to review for completeness and accuracy of provider files. OCFS Quality Assurance staff will conduct the reviews. The program manager/supervisor will be responsible for ensuring the audits are done in accordance with the timeframe outlined above.

Provider agreements are renewed in the second quarter of the calendar year. At this time a complete review of all provider files, including provider agreements will be done by program staff.

The results of the file reviews will be used to inform staff during quarterly performance audits and annual performance evaluations.

Contact: *Angie Bellefleur, Acting Director of Child Care Services, 624-7973*

CHILD SUPPORT ENFORCEMENT

(11-1128-02)

Title: Case records not established within required time frame

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office for Family Independence
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child Support Enforcement (IV-D)
CFDA #: 93.563

Federal Award #: 1004ME4004

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Establishment of cases and maintenance of case records (45 CFR §303.2)

Condition: Federal regulations require that the IV-D agency open a case by establishing a case record within 20 calendar days of receipt of referral or application. The Child Support Enforcement program did not establish case records within this time frame.

Context: The program did not meet the 20 calendar day time frame in five of the 40 cases opened during the fiscal year that we reviewed.

Cause: Lack of staff resources

Effect: Failure to comply in a timely manner may adversely affect child support collections and case management.

Recommendation: We recommend that the Department provide adequate resources to ensure that all case records are established within the required time frame.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The Division of Support Enforcement's Case Initiation Unit is tasked with opening new child support cases when a new referral or application is received. This task is performed mainly by a group of 9 Office Assistant II positions located in the DSER Central Office. During the audit period, 6 of these positions were vacant for in excess of 9 months as a result of a hiring freeze. In addition, 2 positions in this unit were lost permanently. The positions are entry level in nature and the turnover rate remains at approximately 50%. Throughout the audit period, DSER pulled

in resources from other locations and moved positions from other offices to help fill the void. DSER has automated as much of the case building process as possible but ultimately reliable, trained staff is needed to keep DSER in compliance with this requirement. DSER has recently received authorization to fill vacancies in this unit and with a full complement of trained staff available to open cases, we will meet this requirement going forward. The additional staff will be hired by April 1, 2012

***Contact:** Jerry Joy, Director, Division of Support Enforcement & Recovery, 287-2843*

(11-1128-03)

Title: Cases not referred to other States within required time frame

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office for Family Independence
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child Support Enforcement (IV-D)
CFDA #: 93.563

Federal Award #: 1004ME4004

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Provision of services in intergovernmental IV-D Cases (Initiating) (45 CFR §303.7)

Condition: The Child Support Enforcement program did not refer cases to another jurisdiction within 20 calendar days of determining that the non-custodial parent was located in that jurisdiction.

Context: The program did not meet the 20 calendar day time frame in three of the 13 cases that we reviewed.

Cause: Lack of staff resources

Effect: Failure to comply with Federal regulations in a timely manner may adversely affect child support collections and case management.

Recommendation: We recommend that the Department provide adequate resources to ensure that all cases are referred to other jurisdictions within the required time frame.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The Division of Support Enforcement & Recovery assigns cases where the non-custodial parent lives in another jurisdiction to its Interstate Unit where specialized training and procedures are in place to try and meet the requirement of the 20 day referral window. Staffing shortages coupled with a hiring freeze hampered performance during this audit period. In addition, DSER used an automated data warehouse tool to review and monitor case activities but this tool became unavailable as we migrated to a new automated system. Additional tracking and reporting capabilities that will be available in this new system (CSEME) due to go on line in April of 2012, in conjunction with the authorization to hire staff in the Interstate Unit will assist DSER in meeting this requirement going forward. The additional staff will be hired by April 1, 2012

Contact: *Jerry Joy, Director, Division of Support Enforcement & Recovery, 287-2843*

(11-1128-04)

Title: Interstate cases not responded to within required time frame

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office for Family Independence
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child Support Enforcement (IV-D)
CFDA #: 93.563

Federal Award #: 1004ME4004

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Provision of services in intergovernmental IV-D cases (Responding) (45 CFR §303.7)

Condition: The Child Support Enforcement program did not comply with requirements related to interstate cases. The program did not provide referral services within ten working days of receipt of an interstate referral in 23 of 40 cases reviewed. In addition, we found one case where location services were not provided within 75 calendar days.

Context: During fiscal year 2011, 473 interstate responding cases were open.

Cause: Lack of staff resources

Effect: Failure to comply with Federal requirements in timely manner may adversely affect child support collections and case management.

Recommendation: We recommend that the Department provide adequate resources to ensure that all cases referred from other jurisdictions are properly acted upon within the required time frame.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The Division of Support Enforcement & Recovery (DSER) did not meet the 10 working day requirement to provide referral services upon receipt of a referral from another State largely due to staff vacancies and a hiring freeze that was in place during the audit period.

DSER has a Case Initiation Unit located in the Central Office whose function it is to create child support cases upon receipt of referrals from other States. This Unit saw 6 of its 9 positions remain vacant for 9 months of the audit period and while staff was brought in from other locations to assist with the task of opening cases, the only way to assure that this time frame will be met is to keep all positions filled. DSER has automated as much of the process as possible and just recently received approval to fill vacancies so with this, we expect to be able to meet this requirement going forward. The staff positions will be filled by April 1, 2012.

Contact: *Jerry Joy, Director, Division of Support Enforcement & Recovery, 287-2843*

(11-1140-01)

Title: School based rehabilitation services billing and payment procedures need improvement

Prior Year Finding: 10-1140-01
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP; 05-1105ME5ARRA; 05-1005ME5021; 05-1105ME5021

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: MaineCare Benefits Manual §104.8; MaineCare Benefits Manual General Administrative Policies and Procedures §1.02 (D), 1.03 (M) and 1.03 (S)(2)

Condition: Providers did not always maintain or retain records sufficient to document the nature, scope and detail of the services/products provided to each individual MaineCare member with an active Individual Education Plan (IEP). An August 2007 MaineCare policy memo allows Maine schools to submit claims for School Based Rehabilitation Services for all students with an active IEP who attended school at least one day during the month regardless of whether they received services during the month. This guidance and billing practice is inconsistent with the MaineCare Benefits Manual, which requires recipients to be present and receive services within the month in order for the provider to be reimbursed a monthly rate.

Context: After implementation of the new Maine Integrated Health Management Solution (MIHMS) system in September 2010, the School Based Rehabilitation Services section of the MaineCare Benefits Manual was repealed. However, during the period of July 2010 through February 2011, the Maine Claims Management System (MECMS) disbursed approximately $4.8 million in Federal funds for School Based Rehabilitation services based on claims submitted before September 2010.

Cause: The Office of MaineCare Services policy did not adequately consider the provisions of the MaineCare Benefits Manual or Federal regulations.

Effect: Payment practices inconsistent with policy and regulations may result in a disallowance of claims.

Recommendation: We recommend that the Department establish payment procedures that are consistent with the MaineCare Benefits Manual.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The School Based Rehabilitation section of policy has been repealed and services have been moved primarily to MaineCare Benefits Manual sections that include Occupational, Physical, Speech and Hearing services. These services will be paid under fee for service.

DHHS has done rulemaking and made configuration changes to MIHMS to pay correctly; which we were unable to do with MECMS. The rule went into effect September 1, 2010 at the time MIHMS was activated and we are in compliance with the regulations.

Contact: *Beth Ketch, Director, Division of Policy and Performance, 287-9362*

(11-1140-02)

Title: Claims processing procedures to ensure local match (certified seed) is met need improvement

Prior Year Finding: 10-1140-02
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP; 05-1105ME5ARRA; 05-1005ME5021; 05-1105ME5021

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Standards for Financial Management Systems (45 CFR §92.20)

Condition: Budgets for "certified seed" providers were not always appropriately charged for claims processed by MECMS (Maine Claims Management System) through February 2011. Furthermore, procedures were not in place to prevent payments to providers for claims for which they did not provide the qualifying non-Federal share.

In addition, providers "flagged" as certified seed providers who did not have budgets established in the accounting system, could still receive payments for claims processed by the new MIHMS (Maine Integrated Health Management Solution) system. Errors in processing MIHMS claims also resulted in providers being incorrectly reimbursed $122,575 from the General Fund.

Context: The MECMS system processed all claims during July and August and "run out" claims through February of 2011.

The new MIHMS system was implemented September 1, 2010.

Cause: Because of errors in systems program logic and/or the funding allocation process, MECMS did not post certified seed correctly or posted erroneous amounts. In the MIHMS (FLEXI financial) system, if the certified seed provider was flagged, but did not have a certified seed budget set up, the system would inappropriately pay both the State and Federal share, rather than just the Federal share.

Effect: With respect to claims paid by MECMS, when provider seed budgets are not charged as intended, providers can be paid the Federal share of claims even after matching funds have been depleted, thus non Federal match may not be met. When seed budget accounts in the accounting systems are not set to only the non-Federal share of claims, there is no effective "capping" of the amount paid to providers and no effective means to ensure that matching requirements are met.

With respect to claims paid by the MIHMS system, the non-Federal match may be inappropriately paid by the general fund rather than local funds.

Recommendation: We recommend that the Department develop business process controls that will ensure certified seed providers are paid only a Federal share and that the seed amounts are correctly charged against the provider budgets.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The DHHS has contracted with Molina as its fiscal agent. The implementation of the MIHMS was completed September 1, 2010.

The DHHS has brought these issues to the attention of the fiscal agent and as of January 1, 2012, Molina has increased internal controls to verify that providers are charged correctly for certified seed. Weekly scripts are being run for all providers that would be classified under certified seed to make sure that all the appropriate controls are in place to pay claims correctly (i.e. CS alerts are on all locations and GL accounts are setup in Flexi Financials).

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855*

(11-1140-03)

Title: Procedures needed to ensure better accountability of certified public expenditures

Prior Year Finding: 10-1140-03
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1005ME5MAP; 05-1005ME5ARRA; 05-1105ME5MAP; 05-1105ME5ARRA; 05-1005ME5021; 05-1105ME5021

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) - 2 CFR Part 225; Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Matching or Cost Sharing (45 CFR §92.24); MaineCare Benefits Manual General Administrative Policies and Procedures, §1.03(M)

Condition: The amount of certified public expenditures (certified seed) submitted to the Department on "Certified Seed Rider A" forms was not based on the non-Federal share of expenditures budgeted for providing Medicaid reimbursable services to students. Instead, the amount reported on Rider A was the school district's Special Education budget for services provided to MaineCare eligible students.

Context: Certified Seed Rider A forms are important for two purposes. The first purpose is for school superintendents to certify that local matching funds are available and will be spent to provide services that will be reimbursed by the Federal government. The second purpose is to provide budget amounts to be entered into the State's accounting systems to cap the amount of Federal reimbursement.

Cause: The instructions for determining the certified seed amount on the Rider A were incorrect. The instructions should have specified that the amount reported should be the local share of the Special Education budget for Medicaid reimbursable services.

Effect:
- Budgetary controls over reimbursement to certified seed providers will not be effective
- Non Federal match may not be met resulting in a disallowance of the Federal share of claims

Recommendation: We recommend that the Department clarify the instructions for the Certified Seed Rider A form to require the local school districts to include only the local share of the cost of providing Medicaid reimbursable services.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The Office of MaineCare Services has worked with the Department of Education to strengthen policies and procedures that will provide accountability over certified public expenditures.

As of the beginning of State fiscal year 2012, the financial Office of MaineCare Services has clarified the written instructions for calculating the seed amounts certified seed providers are required to provide for Medicaid reimbursable claims. This process has been appended to the budget forms that are posted on the provider portal for Medicaid.

Contact: *Colin Lindley, Director of MaineCare Finance, 287-1855*

TITLE I, PART A CLUSTER

(11-1200-01)

Title: Noncompliance with subrecipient cash management requirements

Prior Year Finding: 10-1200-01
State Department: Administrative and Financial Services
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster
Special Education Cluster (IDEA)
Improving Teacher Quality State Grants
CFDA #: 84.010; 84.389; 84.027; 84.173; 84.391; 84.392; 84.367
Federal Award #: S010A100019A; S389A090019A; H027A100109A; H173A100115; H391A090109A; H392A090115A; S367A100018

Compliance Area: Cash management

Type of Finding: Material weakness/Material noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform administrative requirements for grants and cooperative agreements to State and local governments (34 CFR Subtitle §80.37 & §80.20)

Condition: During fiscal year 2011 the Department did not have adequate procedures in place to monitor cash balances of subrecipients receiving advance funding. The Department utilized a quarterly subrecipient cash management report but disbursed funds on a monthly basis. As of the end of fiscal year 2011, subrecipients reported approximately $23 million in excess cash balances. Many subrecipients had more cash than was considered reasonable for immediate needs.

Context: Approximately 180 subrecipients expended a total of approximately $219.4 million in fiscal year 2011.

Cause: Inadequately designed procedures

Effect: Funds were disbursed to subrecipients in excess of immediate need resulting in noncompliance with Federal cash management requirements.

Recommendation: We recommend that the Department modify procedures to ensure compliance with Federal cash management requirements.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with this finding.*

The General Government Service Center (GGSC) has established a procedure regarding recipient cash on hand. This procedure stipulates that if the quarterly cash management report reflects a cash on hand balance of $1,500 or more in a program, no payments will be issued for the program until a revised report is submitted that reflects a cash balance of less than $1,500.

GGSC is also working with the Department of Education to establish a reimbursement process for all Federal funds. Implementation began on July 1, 2011.

Department of Education Administrative Letter #19 relayed this information to the recipients on October 4, 2010.

Contact: *Darlene M. Tarr, Managing Staff Accountant, 624-7395.*

(11-1200-03)

Title: Procedures to comply with Treasury State Agreement on cash management need to be improved

Prior Year Finding: 10-1200-03
State Department: Administrative and Financial Services
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster;
Special Education Cluster (IDEA)
State Fiscal Stabilization Fund Cluster
CFDA #: 84.010; 84.027; 84.394
Federal Award #: S010A100019A; H027A100109A; S394A090020

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement (31 CFR Subpart A §205)

Condition: The Department did not follow requirements outlined in the Treasury-State Agreement (TSA) on cash management. Federal program cash drawdowns are not being made in a manner consistent with the methodology prescribed by the TSA. Eighteen of 35 drawdowns tested were not in compliance with the prescribed methodology.

Context: The three programs cited expended a total of $172.6 million in fiscal year 2011.

Cause:
- Inadequate procedures
- Insufficient understanding of the requirements of the TSA

Effect:
- Potential interest liability to the Federal government
- Loss of cash pool interest when funds are drawn down later than allowed
- The possibility that the Federal government could impose more stringent cash management requirements on the State for programs in noncompliance

Recommendation: We recommend that the Department follow procedures outlined in the Treasury State Agreement on cash management to ensure that Federal funds are drawn in compliance with Federal requirements.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with this finding.*

The General Government Service Center (GGSC) had established internal procedures to ensure that Federal funds are drawn in compliance with cash management requirements due to last year's finding. The current staff has been informed that the issuance date is record date plus one day (per the TSA). All future draws will adhere to these requirements. This change has also been incorporated into GGSC procedure manuals.

The State Stabilization Fund was not recognized as an average clearance account in error. The GGSC will be meeting with representatives from the Department of Treasury and the Controller's Office to get a better understanding of the requirements and procedures of the Treasury-State Agreement.

Contact: *Darlene M. Tarr, Managing Staff Accountant, 624-7395*

TITLE I, PART A CLUSTER

(11-1200-04)

Title: Federal cash management procedures inadequate

Prior Year Finding: 10-1200-04
State Department: Administrative and Financial Services
State Bureau: Financial and Personnel Services
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster
Special Education Cluster (IDEA)
CFDA #: 84.389; 84.173; 84.391; 84.392
Federal Award #: S389A090019A; H173A100115;
H391A090109A; H392A090115A

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Post-Award Requirements, Standards for Financial Management Systems (34 CFR Subpart C §80); Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR Subpart B §205)

Condition: The Department did not minimize the time between receipt and disbursement of Federal funds for programs not subject to the Treasury-State Agreement on cash management. Three of forty draws tested were in excess of immediate cash needs.

Context: The two programs cited expended approximately $62 million in fiscal year 2011.

Cause: Funds were drawn in excess of immediate need due primarily to the anticipation of a Federal shutdown.

Effect: The possibility that the Federal government could impose more stringent cash management requirements on the State for programs in noncompliance.

Recommendation: We recommend that the Department establish procedures to monitor receipts and disbursements to ensure that grant funds are drawn down on a timely basis and spent within the allowable time frames.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with this finding.*

However, it was a very unique situation in that a Federal government shutdown was looming. On April 7, 2011, the Department of Education's Federal State Legislative Liaison contacted Congressman Mike Michaud's office and was told that a shutdown was imminent. The Deputy Commissioner of the Department of Education wanted to err on the side of drawing so that Maine's schools would not be impacted. Therefore, the General Government Service Center (GGSC) was instructed to draw cash to cover payroll and any obligations for a couple of weeks.

Contact: *Darlene M. Tarr, Managing Staff Accountant, 624-7395*

(11-1201-01)

Title: Noncompliance with earmarking requirements

Prior Year Finding: No
State Department: Education (DOE)
State Bureau: Special Education
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Preschool Grants
Special Education Preschool Grants, Recovery Act
CFDA #: 84.173; 84.392
Federal Award #: H173A100115; H392A090115A

Compliance Area: Earmarking

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Allocation of Formula Subgrants to Local Education Agencies (34 CFR § 300.816); American Recovery and Reinvestment Act (ARRA) of 2009

Condition: The Department did not comply with Federal earmarking requirements related to the preschool grants within the Special Education Cluster. Incorrect data was used in determining amounts to be allocated to the local educational agencies.

Context: The Department was awarded $3.7 million, including ARRA funding, for preschool special education programs during fiscal year 2011. The Department is required to allocate a base amount to approximately 155 LEAs based on the child count conducted on December 1, 1996; instead DOE utilized child count data from 1998. Additionally, enrollment data is used to further allocate the remaining portion of the grants. States are required to use data based on elementary and secondary school enrollment; DOE utilized data relative to five year-old children only.

Cause: Staff turnover

Effect: LEAs may have received disproportionate shares of the regular and ARRA Special Education Preschool Grant funds.

Recommendation: We recommend that the Department continue with the implementation of procedures to ensure that funds are properly allocated in compliance with Federal requirements. According to special education program personnel, new procedures have been developed for use in fiscal year 2012.

Management's Response/Corrective Action Plan: *We agree with the finding.*

The Department of Education will continue with the implementation of the procedures utilized in fiscal year 2012 to ensure compliance with the correct child count and census figures. Corrective action began July 1, 2011.

Contact: *Joanne C. Holmes, Federal State Legislative Liaison, 624-6669*

(11-1201-02)

Title: During-the-award monitoring procedures need improvement

Prior Year Finding: 10-1201-01
State Department: Education
State Bureau: Special Education
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster
CFDA #: 84.027; 84.173; 84.391; 84.392

Federal Award #: H027A100109A; H173A100115;
H391A090109A; H392A090115A

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Subpart D, §__.400 (d)(3), Pass-through entity responsibilities.

Condition: The Department did not monitor subrecipients to ensure compliance with all Federal regulations. The monitoring program did not address compliance with financial requirements such as cash management, matching, and allowable costs.

Context: Ninety-six percent of program funds are passed through to subrecipients.

Cause: Subrecipient monitoring activities only addressed non-financial compliance requirements.

Effect: Potential noncompliance with Federal regulations

Recommendation: We recommend that the Department implement subrecipient monitoring procedures to address all compliance requirements, including those that are financial in nature.

Management's Response/Corrective Action Plan: *The Department of Education agrees with this finding.*

The Department implemented new cash management procedures on 7/1/11. The new procedures involve a reimbursement method of disbursing funds to SAUs. The Department has also developed a subrecipient monitoring procedure to address fiscal compliance requirements. The procedure will address during the award monitoring and high risk monitoring. The plan involves the use of both desk audits and on-site monitoring. The Department is preparing to implement the procedure during State fiscal year 2012.

Contact: *Jan Breton, Federal Program Coordinator, 624-6676*

(11-1201-03)

Title: Award identification procedures need improvement

Prior Year Finding: No
State Department: Education
State Bureau: Special Education
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster
CFDA #: 84.027; 84.173; 84.391; 84.392

Federal Award #: H027A090109A; H173A090115;
H391A090109A; H392A090115A

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Subpart D, §__.400 (d)(3), Pass-through entity responsibilities.

Condition: The Department did not communicate all necessary information regarding Special Education Cluster awards to subrecipients. Subrecipients were not informed of award numbers for grants in the cluster. In addition, an incorrect CFDA number was provided for one of the American Recovery and Reinvestment Act programs.

Context: Approximately 155 local educational agencies were allocated $78.5 million of Special Education Cluster funds.

Cause: Department personnel were unaware of the requirement to provide award numbers to subgrantees. The incorrect CFDA number was the result of an undetected data entry error.

Effect: Subrecipients may not be aware of the source of funds, which could result in non-compliance with applicable Federal regulations.

Recommendation: We recommend that the Department implement procedures to ensure that all necessary information is provided to the local educational agencies.

Management's Response/Corrective Action Plan: *The Department of Education agrees with this finding.*

When the Federal award is made, the Part B Federal program manager will provide the award umber to the software vendor (GEM School Software, Inc) for inclusion in the electronic award notification that is sent to subrecipients upon approval of their applications for funds. This will be implemented beginning with the State fiscal year 2013 award notices.

The incorrect CFDA# for the 5-20 School Age ARRA Grant reported in the Award Identification Email, as noted in the tracking section of the fiscal year 2011 ARRA Application page, was "84-91A". The correct CFDA# for this grant is 84.391A. It is Management's opinion that this occurred due to a typographical error since it did not occur for any of the other IDEA grants, regular or ARRA. Management will ensure that CFDA numbers are checked for accuracy before e-mail notifications are sent out. This will be the responsibility of the program manager.

In order to correct both the omission of the Federal award number and the typographical error, the contract with GEM School Software for fiscal year 2013 will include a provision that the software vendor will ensure that the award notification includes Federal award numbers and that the program manager attests to its accuracy.

Contact: *Jan Breton, Federal Program Coordinator, 624-6676*

(11-1203-03)

Title: Record keeping for donated foods needs to be improved

Prior Year Finding: No
State Department: Education
State Bureau: Child Nutrition Services (CNS)
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child Nutrition Cluster
CFDA #: 10.553; 10.555; 10.556; 10.559
Federal Award #: 2011IN253344

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Maintenance of donated foods inventory records (7 CFR §250.16(a)).

Condition: The Department does not maintain accurate and complete records for the receipt, distribution and inventory of donated foods. Records for the receipt of donated foods by the warehouse were not available. In addition, final inventory records indicated that no commodities existed at year end. However, other records revealed that inventories of certain commodities did exist.

Context: $3.7 million in donated food was distributed in fiscal year 2011

Cause: Lack of communication between the warehouse and Department personnel

Effect: Theft, spoilage, or loss for other reasons could occur without knowledge of program personnel if proper records are not maintained.

Recommendation: We recommend that the Department establish procedures to maintain accurate and complete records for the receipt, distribution and inventory of donated foods.

Management's Response/Corrective Action Plan: *The Department agrees with this finding.*

The Department does maintain accurate records for the receipt of product at the warehouse. When product is received at the warehouse, warehouse staff log into our computer system and indicate product is received and the amount. Records for the receipt of donated foods by the warehouse were not available because it is done completely electronically.

Final inventory records at the warehouse may differ from CNS inventory at year end. Product that is ordered by the district but not delivered by the warehouse will show in warehouse

inventory but not CNS. This undelivered/unclaimed product cannot be added back into the inventory because it belongs to a district and would create a false value of USDA Food received inventory at the warehouse. If undelivered product was reentered it will appear that the product was received twice. To create a zero inventory at the end of the school year unclaimed product is distributed to districts. Product undelivered will be documented in the future by the USDA Food coordinator but not reentered in to the system. Corrective Action will be implemented during March 2012.

CNS has established an open communication between CNS, warehouse, and shipping staff at the distributor this year.

***Contact:** Walter Beesley, Education Specialist, 624-6875*

(11-1203-04)

Title: Reports required under the Federal Funding Accountability and Transparency Act (FFATA) were not filed

Prior Year Finding: No
State Department: Education
State Bureau: Child Nutrition Services
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child Nutrition Cluster
CFDA #: 10.553, 10.555, 10.556, 10.559
Federal Award #: 4ME300301

Compliance Area: Reporting

Type of Finding: Material weakness/Material noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Required reporting under the Federal Financial Accountability and Transparency Act (2 CFR part 170).

Condition: The Department did not submit reports required under the FFATA.

Context: FFATA requires reporting of awards for all grants, cooperative agreements and contracts exceeding $25,000.

Cause: The agency was not aware of FFATA reporting requirements.

Effect: Possible Federal sanctions

Recommendation: We recommend that the Department implement procedures to ensure compliance with FFATA reporting requirements. We further recommend that reports for fiscal year 2011 be filed.

Management's Response/Corrective Action Plan: *The Department of Education agrees with the finding.*

The Department misinterpreted the U. S. Department of Agriculture's (USDA) language regarding FFATA reporting and; therefore, Child Nutrition FFATA reporting was not completed.

The department already has procedures in place to ensure compliance with FFATA reporting for all other Education awards. The Child Nutrition Program FFATA reporting will require different procedures than procedures currently used for all other Education awards since Child Nutrition does not award funding but rather it reimburses expenditures based on monthly Claims for Reimbursements submitted by school districts and other subrecipients included in the program.

Procedures for Child Nutrition FFATA reporting are currently being developed. Included with Corrective Action will be the completion of Child Nutrition FFATA reporting dating back to October 1, 2010.

Implementation of corrective action is expected between May and August 2012.

Contact: *Jim Rier, Deputy Commissioner, 624-6790*

IMPROVING TEACHER QUALITY STATE GRANTS

(11-1221-01)

Title: Grant information not consistently or accurately provided to local educational agencies (LEAs)

Prior Year Finding: No
State Department: Education
State Bureau: Learning Systems Team – Title II-A, Teacher Quality
Federal Agency: U.S. Department of Education
CFDA Title: Improving Teacher Quality State Grants
CFDA #: 84.367
Federal Award #: S367A100018A

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §__.400(d) Pass-through entity responsibilities; The Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act of 2001, Title II, Part A, §2121

Condition: Two out of sixteen LEAs tested did not have supporting documentation showing that they were notified of grant information. Also, one LEA was notified and paid an incorrect grant allocation amount.

Context: The program awarded funds to approximately 160 local educational agencies. The incorrect allocation totaled approximately $8,000.

Causes:
- Lack of staff
- The spreadsheet used to calculate allocation amounts was not reviewed for accuracy.

Effects:
- Subrecipients may not be aware of the source of funds, which could result in non-compliance with applicable Federal regulations.
- LEAs were allocated slightly less than originally intended.

Recommendation: We recommend that the Department implement additional procedures to ensure that all LEAs receive award notification information with the correct allocation amounts. We also recommend that the Department review the LEA allocation spreadsheet to ensure the accuracy of the allocations prior to finalization.

Management's Response/Corrective Action Plan: *The Department of Education agrees with the finding.*

The following procedures will be initiated in August 2012 to ensure that Title IIA grant information is consistently and accurately provided to local educational agencies (LEAs):

- *Grant information related to ESEA Title IIA will be distributed to key staff, including the ESEA Federal Programs Director, Title IIA program staff, ESEA accounting staff and the DAFS grant manager.*
- *The State determines the LEA allocations, as calculated by ESEA Title IIA program staff in accordance with the formula set forth under ESEA regulations. Title IIA program staff will develop a list of procedures outlining the steps for calculating LEA allocations.*
- *The State will assure quality control by having the calculations for LEA Title IIA allocations reviewed for accuracy by a minimum of one other ESEA program staff member and approved, with sign-off, by the ESEA Federal Programs Director.*
- *Approved LEA allocations are submitted to the programmer for the ESEA/NCLB Consolidated Application and to DAFS grant manager. The approved Title IIA LEA allocations are entered into the electronic NCLB application and reimbursement systems.*
- *The LEA completes and submits the electronic application.*
- *Upon approval of the Title IIA application, a grant award letter is electronically generated and sent to the LEA, all ESEA/NCLB Title consultants, and the ESEA accountant. The ESEA accountant prints and files the award letter in LEA files located in the ESEA/NCLB Clearinghouse.*
- *The State will ensure proper notification of grant awards by including a review of SEA to LEA communications as part of the LEA monitoring process. This will provide a check for quality controls for every LEA at least once every 5 years.*

Contact: *Rachelle Tome, ESEA Federal Programs Director, 624-6705*

UNEMPLOYMENT INSURANCE

(11-1302-02)

Title: Significant improvements are needed to prevent, detect, remediate and recover improper Unemployment Insurance benefit payments

Prior Year Finding: No
State Department: Labor
Administrative and Financial Services
State Bureau: Unemployment Compensation (BUC);
Office of Information Technology (OIT)
Federal Agency: U.S. Department of Labor
CFDA Title: Unemployment Insurance (UI)
CFDA #: 17.225
Federal Award #: N/A

Compliance Area: Activities allowed or unallowed
Allowable costs/Cost principles

Type of Finding: Material Weakness

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Improper Payments Elimination and Recovery Act (IPERA) of 2010 (PL 111-204, 31 USC 3321 note); UI Program Letter (UIPL) nos. 33-11, 26-11, 19-11, 17-11, and 31-09 (change 1); Executive Order (EO) 13520, 74 Federal register 62201 (11/20/2009); §4005 of the Supplemental Appropriations Act, 2008, PL 110-252; Improper Payments Act (IPIA) of 2002 (PL 107-300); Common Rule, §20 Standards for Financial Management Systems; Social Security Act (SSA) of 1935, §453; Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) - 2 CFR Part 225

Condition: Controls to prevent, detect, remediate and recover improper UI Benefit payments are deficient. Internal control weaknesses were noted which impact eligibility determinations, case management, claim payments, and overpayment recoupment efforts. The balance of uncollected improper payments has increased from \$22.6 million in 2010 to \$28.8 million in 2011 resulting in an increase of the uncollected balance of 27%.

Context: Total UI benefits paid in 2011 were \$395 million.

Cause: The BUC has inadequate staffing and resources, and continues to use outdated Benefit and Tax systems. The number and expertise of BUC personnel is not sufficient to provide assurance that workarounds to correct system errors will be consistently created and applied to process and adjust payments. The system has poor agility, minimum scalability and inhibits productivity. In addition, the administrative hearings process is prolonged, in part, due to BUC understaffing.

Effect:

- Payments made to ineligible individuals
- Improper payments may not be identified
- Remediation and recovery efforts are impaired
- Fraudulent activity may be difficult to detect
- System controls are not adequately functioning to ensure the appropriateness of benefits

Recommendation: We recommend that the Department be provided with sufficient resources and an adequate labor force to allow for successful implementation of corrective action. We further recommend that the Department continue with their strategic plan to improve its operations and remediate improper payments.

Management's Response/Corrective Action Plan: *The Department agrees that current processes need improvement, and has already made progress in this area.*

The Department does not control the level of Federal funds that are allocated for the unemployment program, but has taken advantage of every opportunity for supplemental Federal funding, and has received additional one-time awards for improvements relating to improper payments. The U.S. Department of Labor allocated funds for short-term staffing and for system improvements that will improve performance over the longer-term. System improvements include the implementation of: data exchanges that will provide early detection of individuals who return to work yet continue to file for benefits; more robust automated claims filing systems; and, systems that facilitate the identification of improper payments and the collection of erroneously paid benefits. All of this work is on schedule to be completed in 2012.

Contact: *Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

UNEMPLOYMENT INSURANCE

(11-1302-06)

Title: Procedures to determine eligibility need to be improved

Prior Year Finding: No
State Department: Labor
Administrative and Financial Services
State Bureau: Unemployment Compensation (BUC)
Office of Information Technology (OIT)
Federal Agency: U.S. Department of Labor
CFDA Title: Unemployment Insurance (UI)
CFDA #: 17.225
Federal Award #: Not applicable

Compliance Area: Eligibility

Type of Finding: Material Weakness/Material Noncompliance/Questioned costs

Known Questioned Costs: $6,532

Likely Questioned Costs: Undeterminable

Criteria: 26 MRSA: §1192 Eligibility Conditions; and 26 MRSA §1194 Claims for Benefits

Condition: Procedures to determine eligibility need to be improved. In our review of 60 claim files, we found 20 instances with no records to support work search for the benefit week tested, four instances where employer verification forms were not generated and sent out by the UI system, and three instances where no evidence that a self-certified claim was initially filed for emergency unemployment compensation. Overall, eligibility documentation errors were found in 38 percent of our sample population. Despite the lack of required documentation, the UI Benefit system does not always cut off benefit payments.

Context: $395 million in benefits were paid in fiscal year 2011.

Cause:
- UI Benefit system errors for certain claim types
- High staff turnover

Effect: Ineligible claimants may receive unemployment benefits for which they were not entitled.

Recommendation: We recommend that the Department continue to implement procedures and system improvements to ensure that eligibility requirements for UI benefits are met and are adequately supported.

Management's Response/Corrective Action Plan: *The Department agrees that improvements can be made in the eligibility review process. There are a number of projects currently underway that will enhance current processes. The review process for claims has been updated to include checks for eligibility issues, the largest of which is insufficient work search. System improvements are also underway and having varying implementation dates in 2012.*

Contact: *Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

(11-1302-07)

Title: Benefit Accuracy Measurement (BAM) unit procedures need to be implemented so that Federal requirements are met

Prior Year Finding: No
State Department: Labor
Administrative and Financial Services
State Bureau: Unemployment Compensation
Office of Information Technology
Federal Agency: U.S. Department of Labor (U.S. DOL)
CFDA Title: Unemployment Insurance (UI)
CFDA #: 17.225
Federal Award #: Not applicable

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Social Security Act (SSA), §453; Improper Payment Information Act (IPIA) of 2002, PL 107-300; Improper Payment Elimination and Recovery Act (IPERA: PL 111-204); Executive Order (EO) 13520; UI Program Letter (UIPL) 31-09, Change 1; UIPL 26-11; UIPL 17-11; UIPL 29-05; and UIPL 19-11.

Condition: BAM unit procedures need to be implemented so that Federal requirements are met. Federal regulations require States to utilize national data exchanges to detect improper UI eligibility determinations. Maine's UI beneficiary information should be cross-matched with the National Directory of New Hires (NDNH), State Information Data Exchange System (SIDES) and Wage Record Information System (WRIS). In addition, the Department has not complied with a directive from U.S. DOL to refer all claimant cases with Federal overpayment balances relating to fraud, greater than $5,000, to the Office of Inspector General (OIG).

Context: The UI Benefits system processed $395 million in benefits payments to approximately 70 thousand claimants during fiscal year 2011.

Cause: Lack of funding and technology resources

Effect:

- Limits MDOL's effectiveness for detecting improper eligibility determinations
- Impairs the Federal government's ability to provide collection assistance

Recommendation: We recommend the Department continue with their strategic plan to implement the use of NDNH, SIDES, and WRIS data exchange information as part of its operations. We also recommend that the Department refer all claimant overpayment balances over $5,000 to the OIG.

Management's Response/Corrective Action Plan: *The Department agrees that improvements can be made in the eligibility review process. The Department is proceeding with its planned implementation of the referenced data exchanges, as well as others. In accordance with that schedule, the NDNH data exchange was implemented in January 2012.*

Regarding the referral of overpayment balances that exceed $5,000 to the OIG, the OIG has encouraged States to first pursue their normal collection processes before referring a case to their office. The Department's normal course of action is to collect repayments using repayment plans, wage garnishment, tax and lottery winnings offsets, and prosecution through the District Attorney offices. In addition, the OIG has indicated that only cases involving large unemployment scams should be referred at this time.

***Contact:** Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

(11-1302-08)

Title: Procedures to write-off Unemployment Insurance benefit overpayments need to be re-assessed

Prior Year Finding: No
State Department: Labor
State Bureau: Unemployment Compensation (BUC)
Federal Agency: U.S. Department of Labor
CFDA Title: Unemployment Insurance (UI)
CFDA #: 17.225
Federal Award #: Not applicable

Compliance Area: Activities allowed or unallowed
Allowable costs/Cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

UNEMPLOYMENT INSURANCE

Criteria: Improper Payments Elimination and Recovery Act (IPERA) of 2010 (PL 111-204, 31 USC 3321 note); UI Program Letter (UIPL) nos. 33-11, 26-11, 19-11, 17-11, and 31-09 (change 1); Executive Order (EO) 13520, 74 Federal register 62201 (11/20/2009); §4005 of the Supplemental Appropriations Act, 2008, PL 110-252; Improper Payments Act (IPIA) of 2002 (PL 107-300); Common Rule, §20 Standards for Financial Management Systems; Social Security Act (SSA) of 1935, §453

Condition: The Department's procedures to write-off uncollectible UI benefit overpayments need to be re-assessed to ensure compliance with State and Federal rules and regulations. Of the $1.8 million in benefit overpayments written off as uncollectible during fiscal year 2011, approximately $300 thousand was collected within the following nine months.

Context: Approximately $2 million is recommended each year for write-off by the Department based upon this process.

Causes:
- Outdated methodology for write-offs
- High turnover and retirement of experienced personnel

Effect:
- Written off accounts are being collected
- Federal government may not be properly credited for it's share of collections that have been previously written off

Recommendation: We recommend the Department take steps to re-assess the process to write-off uncollectible UI Benefit overpayments.

Management's Response/Corrective Action Plan: *The Department agrees that a review of the criteria is required, and any subsequent changes to the process will be made in 2012.*

Contact: *Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

VOCATIONAL REHABILITATION CLUSTER

(11-1308-01)

Title: Cash management procedures need improvement

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Security and Employment Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Vocational Rehabilitation Cluster
CFDA #: 84.126; 84.390
Federal Award #: H126A110026; H126A100026; H390A090026
H126A110085; H126A100085; H390A090085

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 31 CFR §205 Subpart B - Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement; 34 CFR §80 Subpart C

Condition: The Vocational Rehabilitation program maintained cash balances in excess of immediate needs for the entire fiscal year. According to Federal regulations, programs not subject to the Treasury State Agreement on cash management are required to minimize the time between receipt and disbursement of Federal funds.

Context: The program maintained an average of 15 days cash on hand throughout fiscal year 2011.

Cause: Reimbursement of Federal Vocational Rehabilitation program expenditures by the Social Security Administration (SSA) are not taken into consideration when determining amount of funds to draw down.

Effect: The Federal government may require the use of a more stringent cash drawdown method for the program.

Recommendation: We recommend that the Department consider SSA reimbursements when drawing funds for the Vocational Rehabilitation program to ensure that funds are drawn in compliance with cash management requirements.

Management's Response/Corrective Action Plan: *The agency agrees with this finding.*

As noted in the prior year cash management finding, the regulations at 34 CFR §361.64(a) state "any program income received during a fiscal year that is not obligated by the State by the beginning of the succeeding fiscal year remain available for obligation by the State during that succeeding fiscal year." Historical practice had been to spend this program income over the two year period.

In August 2011, the Federal Rehabilitation Services Administration sent guidance advising the States to spend the Social Security Administration (SSA) reimbursement program income before drawing additional Federal funds. We implemented that Federal guidance with the SSA funds received on September 30, 2011. It is now standard practice to subtract the SSA amount from the next draw after the SSA funds are received. We anticipate spending all of the accumulated SSA funds by the end of March 2012.

Contact: *Marilyn Leimbach, Financial Analyst, 623-6714*

(11-1308-02)

Title: Eligibility decisions need to be more timely

Prior Year Finding: 10-1308-03
State Department: Labor
State Bureau: Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Vocational Rehabilitation Cluster
CFDA #: 84.126; 84.390
Federal Award #: H126A110085; H126A100085; H390A090085
H126A110026; H126A100026; H390A090026

Compliance Area: Eligibility

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: *State Vocational Rehabilitation Services Program – Processing referrals and applications* (34 CFR §361.41)

Condition: Eligibility decisions were not completed in the 60-day timeframe required by Federal regulations. In 16 out of 45 cases examined, eligibility decisions were made on average 21 days later than required.

Context: During fiscal year 2011, 1,062 individuals applied for Vocational Rehabilitation services.

Causes:
- Outdated Office of Rehabilitation Services Information System (ORSIS)
- Ability to override prompts in the ORSIS system

Effect: Eligible participants may not receive services in a timely manner

Recommendation: We recommend that the Department develop procedures that will improve the timeliness of eligibility decisions.

Management's Response/Corrective Action Plan: *Management agrees with this finding.*

Although management acknowledges that this remains a compliance issue, the agency reviewed the sixteen DVR cases and noted that the testing sample includes cases that were determined eligible prior to the 2006 staff training and implementation of electronic case management controls. The agency further noted that the eligibilities of four cases were less than six days over due and there was evidence of the impact of vacant caseloads on others. Three cases had evidence of an agreed upon date for extension, but that date was not met. One individual was receiving post-employment services at the time of audit selection; the original case had been destroyed, according to the record retention policy, resulting in insufficient documentation for the auditor.

DVR continues to address this deficiency in multiple ways, including staff performance expectations, supervisory support and effort to fill vacancies as soon as possible. Additionally, the record retention policy was updated in November 2011 to clarify that the final closure is to be considered the post-employment closure and records can be destroyed three years after that date.

The agency agrees that ORSIS was an antiquated electronic case management system and in December 2011 implemented AwareVR, an Alliance Enterprises' product used by over 25 other State VR agencies across the country. This software will provide more reliable internal controls, including prompts for counselors and reports for supervisors, but since the audit sample pulls from all active cases, it may be several years before DVR fully meets compliance.

Contact: *Betsy Hopkins, DVR Director, 623-6745*
Karen Fraser, BRS Q.A. Director, 623-7961

(11-1308-03)

Title: Improvements are needed to ensure timely development of Individualized Plans for Employment (IPEs)

Prior Year Finding: No
State Department: Labor (DOL)
State Bureau: Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Vocational Rehabilitation Cluster
CFDA #: 84.126; 84.390
Federal Award #: H126A110085; H126A100085; H390A090085
H126A110026; H126A100026; H390A090026

Compliance Area: Eligibility

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Maine Department of Labor Division of Vocational Rehabilitation Rules, Section 7.2; 34 CFR §361.45(a)(1) - State Vocational Rehabilitation Services Program – Development of the individualized plan for employment.

Condition: IPEs were not developed in the six month timeframe required the Department of Labor Division of Vocational Rehabilitation Rules. According to the DOL Rules, IPEs will be developed within six months of the eligibility determination or the date the individual is removed from the waiting list. In 11 out of 45 cases examined, IPEs were not developed within the six month timeframe required by the DOL.

Context: Federal regulations do not specify a timeframe for development of an IPE, only that they be developed and implemented in a "timely manner." Maine Department of Labor Division of Vocational Rehabilitation Rules, section 7.2 requires that IPEs be developed within six months.

Cause: The outdated Office of Rehabilitation services Information System (ORSIS) and the ability to override prompts in ORSIS.

Effect: Eligible participants may not receive services in a timely manner

Recommendation: No recommendation is being made as the auditor noted that the Department has implemented procedures to improve the timeliness of developing IPEs for applications received in fiscal year 2011.

Management's Response/Corrective Action Plan: *Management agrees with the finding.*

The agency reviewed the eleven cases identified as being out of compliance in the audit sample and found that three were served by the Division for the Blind and Visually Impaired (DBVI) and eight served by the Division of Vocational Rehabilitation (DVR). Two DBVI cases and one DVR case were students in transition. Three other DVR cases were individuals with significant needs. All of these cases were provided with extensive rehabilitation services and support leading to a viable vocational goal and employment plan.

One other individual was receiving DVR post-employment services at the time of audit selection; the original case had been destroyed, according to the record retention policy, resulting in insufficient documentation for the auditor. The record retention policy was subsequently updated in November 2011 to clarify that the final closure is to be considered the post-employment closure, allowing records to be destroyed three years after that date.

The agency has taken multiple approaches to ensure that IPE's are developed within six months of an individual's eligibility for cost services. These include quarterly case reviews of randomly selected active cases, updated guidance on the use of Trial Work and Extended Evaluation in September 2011, as well as technical assistance provided by the Rehabilitation Services Administration during an onsite monitoring review in June 2011 related to serving youth in transition. Management is closely monitoring plan development and is seeing a decrease overall in the average number of days, but this remains a challenge, given the range of people served with significant disabilities and ongoing staffing shortages.

Additionally, the agency was able to replace ORSIS, its antiquated electronic case management system, in December 2011 with AwareVR, an Alliance Enterprises' product used by over 25 other State VR agencies across the country. This software will provide more reliable internal controls, including prompts for counselors when IPE's are coming due, as well as reports for supervisors to better support individual performance.

Contact: *Betsy Hopkins, DVR Director, 623-6745*
John McMahon, DBVI Director, 623-7949
Karen Fraser, BRS Q.A. Director, 623-7961

(11-1315-01)

Title: Cash management procedures need to be improved

Prior Year Finding: 10-1315-01
State Department: Administrative and Financial Services
State Bureau: Security and Employment Service Center
Federal Agency: U.S. Department of Labor
CFDA Title: Workforce Investment Act (WIA) Cluster
CFDA #: 17.258; 17.259; 17.260; 17.277; 17.278
Federal Award #: AA171253Y; AA171254A; AA186448D; AA186446E; AA186448F; AA186446Z; AA186446XO; AA186446ZO; AA1886446EO; AA186448DO; AA186448FO; AA171255J; AA171255P; AA171255L

Compliance Area: Cash Management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 31 CFR §205 Subpart B - *Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement; 34 CFR* §80 Subpart C

Condition: According to Federal regulations, programs not subject to the Treasury-State Agreement on cash management are required to minimize the time between receipt and disbursement of Federal funds. In our review, we noted that the program maintained cash balances in excess of immediate need throughout the year.

Context: The WIA program expended approximately $16 million of Federal funds in fiscal year 2011.

Cause: Cash on hand is not taken into consideration when the amount of a draw from the Federal government is determined.

Effect: Potential interest liability to the Federal government and possibility of more stringent cash management requirements imposed by the Federal government.

Recommendation: We recommend that the Department document and follow established procedures to ensure that Federal funds are drawn in compliance with cash management requirements.

Management's Response/Corrective Action Plan: *We agree with the finding.*

The account went through significant changes during the fiscal year to simplify accounting and reconciliation. Drawdown documentation and procedures will be reviewed again and updated by April 1, 2012.

Contact: *Dennis Corliss, Service Center Director 623-6701*

(11-1315-02)

Title: Subrecipient monitoring activities need to be improved

Prior Year Finding: 10-1315-03
State Department: Labor
Administrative and Financial Services
State Bureau: Employment Services
Security and Employment Service Center
Federal Agency: U.S. Department of Labor
CFDA Title: Workforce Investment Act (WIA) Cluster
CFDA #: 17.258; 17.259; 17.260; 17.277; 17.278
Federal Award #: AA171253Y; AA171254A; AA186448D; AA186446E; AA186448F; AA186446Z; AA186446XO; AA186446ZO; AA1886446EO; AA186448DO; AA186448FO; AA171255J; AA171255P; AA171255L

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §__.400(d)(3)

Condition: The Department did not monitor the activities of subrecipients as necessary to ensure that Federal awards were used for authorized purposes in compliance with Federal requirements. On-site visits were not conducted in fiscal 2011.

Context: Subrecipients were awarded $14.2 million in State fiscal year 2011.

Cause: Lack of designated resources to ensure annual on-site subrecipient monitoring is performed.

Effect: No assurance that Federal awards were used for authorized purposes in compliance with Federal requirements.

Recommendation: We recommend that the Department implement procedures to ensure that subrecipients are properly monitored.

Management's Response/Corrective Action Plan: *We agree with the finding.*

OMB Circular A-133 requires monitoring of sub-recipients' Single Audit reports and follow-up on compliance issues presented in the Single Audits. During fiscal year 2011, the Security and Employment Service Center did perform the A-133 required monitoring of Single Audit reports. Due to a position vacancy for most of fiscal year 2011, on-site monitoring of the four Local Workforce Investment Boards was not performed as required by the US Department of Labor. During fiscal year 2012 all monitoring will be performed, including performing on-site monitoring of all four LWIBs. The last on-site monitoring this fiscal year is scheduled for the end of May 2012.

Contact: *Dennis Corliss, Service Center Director, 623-6701*

(11-1315-03)

Title: Procedures for providing award information to subrecipients need to be implemented

Prior Year Finding: 10-1315-02
State Department: Labor
State Bureau: Employment Services
Federal Agency: U.S. Department of Labor
CFDA Title: Workforce Investment Act (WIA) Cluster
CFDA #: 17.258; 17.259; 17.260
Federal Award #: AA171253Y; AA171254A; AA186448D; AA186446E; AA186448F; AA186446Z; AA186446XO; AA186446ZO; AA1886446EO; AA186448DO; AA186448FO; AA171255J; AA171255P; AA171255L

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §__.400(d)(1)

Condition: Procedures were not adequate to ensure that subrecipients were provided with all required grant information. Subrecipients were not provided with the CFDA title and number, the name of the Federal awarding agency, and the applicable compliance requirements at the time of the award.

Context: Subrecipients were awarded $14.2 million in fiscal year 2011.

Cause: Lack of procedures to communicate required grant information to subrecipients.

Effect: Subrecipients may not be aware of the Federal funding source. This could result in noncompliance with applicable Federal regulations.

Recommendation: We recommend that the Department implement procedures to provide the required information at the time of the award.

Management's Response/Corrective Action Plan: *The Department agrees with this finding and it has been addressed.*

This issue was resolved after being notified in March of 2011 and program year 2010 contracts include the CFDA number and other award language. Contract instructions were revised to include adding award language to all Federal contracts. This finding was a repeat finding this year because contracts from previous years were chosen for review. We fully expect that this will not be an issue in future years

Contact: *Peter J. Paré, Executive Director, (207) 623-7996*

WIA CLUSTER

(11-1315-04)

Title: Procedures to ensure compliance with Federal suspension and debarment requirements need improvement

Prior Year Finding: No
State Department: Labor
State Bureau: Employment Services
Federal Agency: U.S. Department of Labor
CFDA Title: Workforce Investment Act (WIA) Cluster
CFDA #: 17.258; 17.259; 17.260; 17.277; 17.278
Federal Award #: AA171253Y; AA171254A; AA186448D; AA186446E; AA186448F; AA186446Z; AA186446XO; AA186446ZO; AA1886446EO; AA186448DO; AA186448FO; AA171255J; AA171255P; AA171255L

Compliance Area: Procurement, suspension and debarment

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 45 CFR §74.13 Debarment and Suspension

Condition: The Department did not ensure that payments were not made to suspended or debarred parties. Certifications were not obtained for eight of nine subrecipients tested.

Context: The nine subrecipients tested expended $13.6 million during fiscal year 2011.

Cause: Lack of monitoring of contractual provisions

Effect: Potential payments to suspended or debarred parties, resulting in disallowances

Recommendation: We recommend that the Department implement procedures to ensure the required suspension and debarment clause be included in the contracts.

Management's Response/Corrective Action Plan: *The Department agrees with this finding and it has been addressed.*

Contract instructions were revised in February of 2011 to require the suspension and debarment form. All new contracts written after this date should include this language, either in the body of the contract or as a rider to the contract.

***Contact**: Peter J. Paré, Executive Director, 623-7996*

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER

(11-1401-01)

Title: Procedures related to Davis-Bacon requirements need improvement

Prior Year Finding: ML10-1401-01
State Department: Transportation (MDOT)
State Bureau: Project Development
Federal Agency: U.S. Department of Transportation
CFDA Title: Highway Planning and Construction Cluster
CFDA #: 20.205; 20.219
Federal Award #: Various

Compliance Area: Davis-Bacon Act

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction (29 CFR Part 5)

Condition: Contractors and subcontractors that work on Federally-funded highway projects are required to submit certified payroll information to the MDOT. The Davis-Bacon Act requires that State transportation agencies review and approve certified payroll information submitted by the contractors. Out of 40 contractors reviewed, seven contractors did not have their Davis-Bacon payroll information approved by a resident engineer on a consistent basis. For those seven contractors, we reviewed a total of 256 payroll forms submitted during fiscal year 2011, of which 56 had not been approved by the resident engineer. The percentage of payroll forms that had not been approved for the seven contractors is as follows:

- For five contractors, the percentage of payroll forms not approved ranged from 9% to 25% of their total payroll forms submitted to MDOT.
- For two contractors, 33 % of their payroll forms submitted had not been approved.

Context: $128.8 million was paid to contractors in fiscal year 2011.

Cause: Competing priorities of field personnel

Effect: Possible Federal sanctions for noncompliance with the Davis-Bacon Act

Recommendation: We recommend that the Department review and approve contractor's payrolls to ensure compliance with Davis-Bacon requirements.

Management's Response/Corrective Action Plan: *The Department of Transportation agrees with this finding.*

Corrective Action will consist of defining timely review and approval of certified payroll information submitted by contractors within two weeks of receipt. Additionally, recognizing that payroll approval was an issue, the department contracted with the Elations System to set -up email notifications to residents, their direct supervisors and the contracts engineers when payrolls have been entered and not reviewed for more than a week. If necessary, notices will be sent every two weeks. This addition to the current Elations System is in process and should be on-line soon.

Corrective Action is expected to be implemented by June 2012.

Contact: *Joyce Taylor, Director of Bureau of Project Development, 624-3400.*

(11-1401-02)

Title: Quality Assurance Program requirements not followed

Prior Year Finding: No
State Department: Transportation
State Bureau: Project Development
Federal Agency: U.S. Department of Transportation
CFDA Title: Highway Planning and Construction Cluster
CFDA #: 20.205; 20.219
Federal Award #: Various

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Quality Assurance Program (23 CFR §637.207)

Condition: The Quality Assurance Program must ensure that materials and workmanship conform to approved plans and specifications. This includes a sampling and testing program that must be implemented by a State for construction projects based on minimum testing requirements. Two of the twenty-five projects reviewed did not satisfy the minimum testing requirements.

Context: There were approximately 200 active projects during the 2011 fiscal year.

Cause: Resident inspectors did not always ensure that testers were extracting the minimum number of samples required.

Effect: Possible Federal sanctions for noncompliance with Quality Assurance Program requirements.

Recommendation: We recommend that the MDOT implement procedures, such as training and management oversight, to ensure that the number of samples tested from a construction project satisfies minimum testing requirements.

Management's Response/Corrective Action Plan: *The Department of Transportation agrees with this finding.*

The Department does have procedures and policies for the minimum testing requirements. Training recently occurred for employee and consultant inspection staff over this issue. This is mandatory annual training for construction inspection staff. Additionally, construction support staff have been instructed to check on this item when they visit active construction projects to ensure timely compliance. This instruction was recently discussed at a monthly meeting the construction support staff attended to ensure consistency. This instruction will become part of a checklist that construction support staff will use when visiting projects. Starting this construction season, discipline of employees or removal of a consultant may occur if compliance with minimum testing compliance is not achieved.

Contact: *Joyce Taylor, Director of Bureau of Project Development, 624-3400.*

FEDERAL TRANSIT CLUSTER

(11-1403-01)

Title: Procedures related to subrecipient monitoring requirements need improvement

Prior Year Finding: No
State Department: Transportation (MDOT)
State Bureau: Finance and Administration
Federal Agency: U.S. Department of Transportation
CFDA Title: Federal Transit Cluster
Formula Grant for Other Than Urbanized Areas
CFDA #: 20.500; 20.507; 20.509
Federal Award #: Various

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Office of Management and Budget (OMB) Circular A-133, Subpart D, _ .400 (d)(5)

Condition: The Department did not have a process in place to ensure that management decisions for findings contained in subrecipient audit reports were issued within six months from the receipt of the report. Out of four subrecipients that were required to submit their audit report to MDOT, only two were reviewed within six months. As a result, management decisions could not be issued within the required timeframe.

Context: $2.9 million was passed through to subrecipients requiring an audit under OMB Circular A-133.

Cause: Staff turnover / Lack of staff

Effect: Appropriate corrective action may not be taken on audit findings

Recommendation: We recommend that the Department establish a process to ensure that subrecipient A-133 audit reports are reviewed and management decisions are issued within six months of receiving the reports.

Management's Response/Corrective Action Plan: *The Department of Transportation, Office of Audit agrees with the finding that our office did not consistently ensure that management decisions for findings contained in subrecipients' audit reports were issued within six months from the receipt of the report.*

The Department of Transportation, Office of Audit is currently in the process of replacing missing staff members (estimated date of completion 4/30/12) and our Status of Agency Audit Reports register has been updated (completed on 2/29/12) to include a more stringent 5 month deadline for our reviews and management decisions to help ensure the six month timeline is always met.

Contact: *Helen Eagen, Audit Analyst, 624-3112*

STATE ENERGY PROGRAM

(11-1530-01)

Title: Federal suspension and debarment procedures need to be implemented

Prior Year Finding: No
State Department: Executive
State Bureau: Office of Energy Independence and Security
Federal Agency: U.S. Department of Energy
CFDA Title: State Energy Program
CFDA #: 81.041
Federal Award #: DE-EE0000368

Compliance Area: Procurement, suspension and debarment

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Department of Energy Financial Assistance Rules – Subawards to Debarred and Suspended Parties (10 CFR §600.235); State Energy Program (10 CFR §420)

Condition: Federal regulations require that recipients of Federal funds establish procedures to ensure that funds are not passed through to subrecipients that have been suspended or debarred. The Department did not obtain a certification from the sub-recipient nor did they review the Excluded Party List System (EPLS) to determine whether or not the subrecipient was suspended or debarred.

Context: The program has one major sub-recipient that received approximately $13.5 million.

Cause: Unfamiliarity with the Federal requirements

Effect: Payments may be made to suspended or debarred parties

Recommendation: We recommend that the Department implement procedures to ensure that suspended or debarred parties are not awarded Federal grant funds.

Management's Response/Corrective Action Plan: *OEIS agrees with this finding.*

The June 2010 Memorandum of Agreement with OEIS, Efficiency Maine Trust and Department of Administrative and Services, which clarified roles and responsibilities of the 3 agencies did not include specific provisions on suspension and debarment. OEIS does include all standard State contracting language on suspension and debarment in its contracts with vendors and will include this same language in all formal agreements with eligible State, quasi-State and State university agencies. In addition, effective December 2011, OEIS is conducting Excluded Parties Search List reviews (https://www.epls.gov/) on all sub recipients, sub grantees, and vendors under contract or agreement.

Contact: *Michael Barden, Senior Planner, 624-7436*

(11-1530-03)

Title: Subrecipient monitoring procedures need improvement

Prior Year Finding: No
State Department: Executive
State Bureau: Office of Energy Independence and Security
Federal Agency: U.S. Department of Energy
CFDA Title: State Energy Program
CFDA #: 81.041
Federal Award #: DE-EE0000368

Compliance Area: Subrecipient monitoring
Allowable costs/Cost principles
Activities allowed or unallowed

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Department of Energy Financial Assistance Rules – Monitoring and Reporting Program Performance (10 CFR §600.240); Department of Energy Financial Assistance Rules – Allowable Costs (10 CFR §600.222); Guidance for State Energy Program Grantees on Sub-recipient Monitoring (State Energy Program Notice 10-015); State Energy Program (10 CFR §420)

Conditions: The Department did not effectively monitor its subrecipient to ensure that Federal funds were used only for authorized purposes. Summary level data provided by the subrecipient did not supply adequate detail to determine allowability.

Context: The program has one major subrecipient that received approximately $13.5 million.

Causes:
- The agency relied on the subrecipient to comply with Federal requirements
- Lack of written policies and procedures

Effects: The subrecipient may not comply with Federal regulations and any noncompliance may not be detected.

Recommendation: We recommend that the Department implement a more thorough process to ensure that the subrecipients' use of funds is for allowable activities.

Management's Response/Corrective Action Plan: *OEIS agrees with this finding.*

In August 2010, and March 2011, OEIS participated in US DOE On-site Monitoring Site Visits, which included reviews of Efficiency Maine Trust sub sub-recipient project invoice receipts. However, OEIS does not have formal sub recipient monitoring policies and procedures in place to ensure on-going compliance, and OEIS has not conducted independent file reviews of selected Efficiency Maine Trust project files. In November 2011, Efficiency Maine Trust filed its A-133 Single Audit Report with the Federal audit database. No significant adverse findings were noted in the independent audit.

By April 30, 2012, OEIS will complete a sub recipient monitoring plan to ensure grant expenditures are allowable and in compliance with all Federal financial rules and provisions.

Contact: *Michael Barden, Senior Planner, 624-7436*

STATE OF MAINE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2011

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
08-05	Various	Health and Human Services	Income and Eligibility Verifications System requirements not followed	None	Corrective action plan not completed in FY11	See 11-1111-01 No further action warranted per OMB A-133 §315(b)(4)
08-06	Various	Administrative and Financial Services	Noncompliance with federal cash management requirements for programs included in the Treasury-State Agreement	None	Corrective action plan not completed in FY11	See 11-1200-03 No further action warranted per OMB A-133 §315(b)(4)
08-08	10.557	Health and Human Services	Noncompliance with cash management requirements	None	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-18	Various	Administrative and Financial Services	Noncompliance with federal cash management requirements for programs not included in the Treasury-State Agreement	None	Corrective action plan not completed in FY11	See 11-1200-04 No further action warranted per OMB A-133 §315(b)(4)
08-19	84.126	Labor	Client service payments not adequately monitored	$264	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2011

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
08-21	84.126	Labor	Eligibility decisions not timely	None	Corrective action plan not completed in FY11	See 11-1308-02 No further action warranted per OMB A-133 §315(b)(4)
08-24	84.010, 84.027, 84.173, 84.367	Administrative and Financial Services	Subrecipient cash management requirements not followed	None	Corrective action plan not completed in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-29	93.558	Administrative and Financial Services	Inaccurate financial reporting	None	Corrective action plan not completed in FY11	See 11-1111-02 No further action warranted per OMB A-133 §315(b)(4)
08-36	93.658	Health and Human Services	Payments made for unallowable activities	$30,092	Corrective action plan not completed in FY11	See 11-1109-01 No further action warranted per OMB A-133 §315(b)(4)
08-37	93.658, 93.659	Administrative and Financial Services	Costs not properly charged or allocated	$200,646	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-38	93.658, 93.659	Administrative and Financial Services	Office of Child and Family Services' cost allocation plan contained errors	None	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2011

Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY11 Status (Refer to auditee's complete corrective action plan)**	**FY11 Finding**
08-39	93.658, 93.659	Administrative and Financial Services	Procedures not in place to ensure cash management requirements are met	None	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-43	93.658, 93.659	Administrative and Financial Services	Inaccurate financial reports	None	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-45	93.767	Health and Human Services	Waiver costs funded by incorrect program	$295,909	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-46	93.767	Health and Human Services	Maine Claims Management System (MECMS) errors may result in local match (certified seed) not being met	None	Corrective action plan not completed in FY11	See 11-1140-02 No further action warranted per OMB A-133 §315(b)(4)
08-49	93.775, 93.777, 93.778, 93.767	Health and Human Services	School Based Rehabilitation services billing and payment policy	$3,976, $13,578	Corrective action plan not completed in FY11	See 11-1140-01 No further action warranted per OMB A-133 §315(b)(4)
08-51	93.775, 93.777, 93.778, 93.767	Health and Human Services	Reimbursement rate not adequately supported; inaccurate reimbursement rate paid to providers	$335,724, $28,607	Corrective action plan not completed in FY11	See 11-1106-14 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2011

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
08-54	93.775, 93.777, 93.778	Health and Human Services	Cost of care recoupments not credited to federal funds	$79,309	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-57	93.775, 93.777, 93.778, 93.767	Health and Human Services	Incorrect client eligibility determinations	$266,342	Corrective action plan not completed in FY11	See 11-1106-16 No further action warranted per OMB A-133 §315(b)(4)
08-59	93.775, 93.777, 93.778, 93.767	Health and Human Services	Basis for certification of public expenditures (certified seed) not supported	None	Corrective action plan not completed in FY11	See 11-1140-03 No further action warranted per OMB A-133 §315(b)(4)
08-62	93.775, 93.777, 93.778	Administrative and Financial Services and Health and Human Services	Untimely crediting of federal share of audit cost settlements and Program Integrity recoupments; no accounts receivable established for Program Integrity recoupments	None	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-63	93.775, 93.777, 93.778	Health and Human Services	Services furnished to recipients not verified	None	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2011

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
08-64	93.775, 93.777, 93.778	Administrative and Financial Services and Health and Human Services	Claims processing and information retrieval system lacking required functionalities	None	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-66	93.775, 93.777, 93.778	Health and Human Services	Inadequate surveillance and utilization review of Medicaid services	None	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-70	Various	Administrative and Financial Services	Costs not allocated in accordance with plan	$2,364,580, $54,760	Corrective action taken in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-72	97.036	Defense, Veterans and Emergency Management	Lack of procedures to ensure compliance with subrecipient monitoring requirements	None	Corrective action plan not completed in FY11	No further action warranted per OMB A-133 §315(b)(4)
08-74	97.067	Defense, Veterans and Emergency Management	Lack of procedures to ensure compliance with subrecipient monitoring requirements	None	Corrective action plan not completed in FY11	No further action warranted per OMB A-133 §315(b)(4)
09-1103-01	93.558, 93.658 & 93.659	Administrative and Financial Services	Procedures not adequate to ensure costs are properly allocated in accordance with cost allocation plans	$410,408	Corrective action taken in FY11	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2011

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
09-1106-02	93.775, 93.777, 93.778	Administrative and Financial Services and Health and Human Services	Procedures for crediting and accounting for federal share of overpayments not adequate	None	Corrective action taken in FY11	Finding was not repeated
09-1106-03	93.775, 93.777, 93.778	Health and Human Services	Inadequate controls over verification of services provided	None	Corrective action taken in FY11	Finding was not repeated
09-1106-04	93.775, 93.777, 93.778	Administrative and Financial Services and Health and Human Services	Claims processing and information retrieval system lacking required functionalities	$15,822	Corrective action taken in FY11	Finding was not repeated
09-1106-05	93.775, 93.777, 93.778	Health and Human Services	Inadequate procedures over surveillance and utilization review of Medicaid services	None	Corrective action taken in FY11	Finding was not repeated
09-1106-06	93.775, 93.777, 93.778	Health and Human Services	Inadequate procedures to ensure proper crediting of federal share of cost of care recoupments	$71,921	Corrective action taken in FY11	Finding was not repeated
09-1106-08	93.775, 93.777, 93.778	Health and Human Services	Controls not adequate to ensure provider eligibility requirements are met	None	Corrective action plan not completed in FY11	11-1106-12

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2011

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
09-1106-09	93.775, 93.777, 93.778	Administrative and Financial Services and Health and Human Services	Inadequate controls over pharmacy claims processing system	None	Corrective action plan not completed in FY11	11-1106-04
09-1106-10	93.775, 93.777, 93.778, 93.767	Health and Human Services	Reimbursement rate not adequately supported or inaccurate reimbursement rate paid to providers	$96,618	Corrective action plan not completed in FY11	11-1106-14
09-1106-13	93.775, 93.777, 93.778	Administrative and Financial Services and Health and Human Services	Inadequate controls over prompt payment requirements	None	Corrective action plan not completed in FY11	11-1106-01
09-1106-14	93.775, 93.777, 93.778, 93.767	Health and Human Services	Procedures not adequate to ensure proper client eligibility	None	Corrective action plan not completed in FY11	11-1106-16
09-1109-03	93.658, 93.659	Administrative and Financial Services	Inadequate procedures to ensure costs are properly charged or allocated	$301,318	Corrective action taken in FY11	Finding was not repeated
09-1109-04	93.658	Health and Human Services	Procedures not adequate to ensure payments are made only for allowable activities	$7,045	Corrective action plan not completed in FY11	11-1109-01

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2011

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
09-1109-05	93.658	Administrative and Financial Services	Procedures not adequate to ensure accurate quarterly financial reports	None	Corrective action taken in FY11	Finding was not repeated
09-1109-07	93.658	Administrative and Financial Services	Federal cash management procedures inadequate	None	Corrective action taken in FY11	Finding was not repeated
09-1110-02	93.659	Administrative and Financial Services	Procedures not adequate to ensure accurate quarterly financial reports	None	Corrective action taken in FY11	Finding was not repeated
09-1110-03	93.659	Administrative and Financial Services	Procedures not in place to ensure cash management requirements are met	None	Corrective action taken in FY11	Finding was not repeated
09-1111-01	Various	Health and Human Services	Income and Eligibility Verifications System requirements not followed	None	Corrective action plan not completed in FY11	11-1111-01
09-1111-04	93.558	Administrative and Financial Services	Controls inadequate to ensure accurate financial reporting	None	Corrective action plan not completed in FY11	11-1111-02
09-1113-03	10.557	Health and Human Services	Inadequate procedures for federal cash management	None	Corrective action taken in FY11	Finding was not repeated

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
09-1140-01	93.767	Health and Human Services	Maine Claims Management System (MECMS) procedures not adequate to ensure local match (certified seed) is met	None	Corrective action plan not completed in FY11	11-1140-02
09-1140-03	93.775, 93.777, 93.778, 93.767	Health and Human Services	School Based Rehabilitation services billing and payment policy procedures not adequate	None	Corrective action plan not completed in FY11	11-1140-01
09-1140-04	93.775, 93.777, 93.778, 93.767	Health and Human Services	Procedures needed to ensure better accountability of certified public expenditures (certified seed)	None	Corrective action plan not completed in FY11	11-1140-03
09-1200-01	84.010, 84.027, 84.173 & 84.367	Administrative and Financial Services	Noncompliance with subrecipient cash management requirements	None	Corrective action plan not completed in FY11	11-1200-01
09-1200-03	10.555, 84.010 & 84.027	Administrative and Financial Services	Federal cash management procedures not followed	None	Corrective action plan not completed in FY11	11-1200-03
09-1200-04	Various	Administrative and Financial Services	Federal cash management procedures inadequate	None	Corrective action plan not completed in FY11	11-1200-04

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
09-1201-02	84.027 & 84.173	Education	Procedures not adequate to ensure timely site visits	None	Corrective action plan not completed in FY11	11-1201-02
09-1203-01	10.553, 10.555, 10556 & 10.559	Education	Inadequate controls over monitoring of subrecipient net cash resources	None	Corrective action plan not necessary due to new Federal interpretation in FY11	Finding was not repeated
09-1203-04	10.553, 10.555, 10556 & 10.559	Education	Inadequate procedures for providing award information to subrecipients	None	Corrective action taken in FY11	Finding was not repeated
09-1234-01	84.394 & 84.397	Administrative and Financial Services	Noncompliance and inadequate controls over federal cash management procedures	None	Corrective action plan not completed in FY11	11-1200-04
09-1308-01	84.126	Labor	Procedures not adequate to ensure timely eligibility decisions	None	Corrective action plan not completed in FY11	11-1308-02
09-1308-02	84.126	Labor	Client service payments not adequately monitored	$9,050	Corrective action taken in FY11	Finding was not repeated
09-1502-01	97.036	Defense, Veterans and Emergency Management	Lack of procedures to ensure compliance with subrecipient monitoring requirements	None	Corrective action plan not completed in FY11	Finding was not repeated

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
09-1503-02	12.401	Defense, Veterans and Emergency Management	Federal cash management procedures inadequate	None	Corrective action taken in FY11	Finding was not repeated
10-1102-01	93.767	Administrative and Financial Services	Procedures to ensure accurate financial reporting need improvement	None	Corrective action taken in FY11	Finding was not repeated
10-1103-01	93.658, 93.659	Administrative and Financial Services	Costs not allocated in accordance with cost allocation plan	$171,437 $14,316	Corrective action taken in FY11	Finding was not repeated
10-1106-01	93.775, 93.777, 93.778	Health and Human Services	Internal control over Medicare Part B eligibility needs improvement	None	Corrective action plan not completed in FY11	11-1106-08
10-1106-02	93.775, 93.777, 93.778	Administrative and Financial Services and Health and Human Services	Federal share of paid claims overstated	Not determinable	Corrective action plan not completed in FY11	11-1106-02
10-1106-03	93.775, 93.777, 93.778	Health and Human Services	Inconsistent application of controls over the Medicaid provider desk review process	None	Corrective action plan not completed in FY11	11-1106-05
10-1106-04	93.775, 93.777, 93.778	Health and Human Services	Controls over the hospital cost reporting process need improvement	None	Corrective action plan not completed in FY11	11-1106-06

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
10-1106-05	93.775, 93.777, 93.778	Administrative and Financial Services and Health and Human Services	Procedures to ensure proper crediting of Federal share of cost of care recoupments need improvement	$86,636	Corrective action taken in FY11	Finding was not repeated
10-1106-06	93.775, 93.777, 93.778	Health and Human Services	No verification of services furnished to recipients	None	Corrective action taken in FY11	Finding was not repeated
10-1106-07	93.775, 93.777, 93.778	Administrative and Financial Services and Health and Human Services	Claims processing and information retrieval system lacking required functionalities	None	Corrective action taken in FY11	Finding was not repeated
10-1106-08	93.775, 93.777, 93.778	Health and Human Services	Inadequate surveillance and utilization review of Medicaid services	None	Corrective action taken in FY11	Finding was not repeated
10-1106-09	93.775, 93.777, 93.778, 93.767	Health and Human Services	Controls over pharmacy claims processing system need improvement	Not determinable	Corrective action plan not completed in FY11	11-1106-04
10-1106-10	93.775, 93.777, 93.778, 93.767	Health and Human Services	Reimbursement rates not adequately supported/incorrect reimbursement rates paid to providers	$30,000	Corrective action plan not completed in FY11	11-1106-14
10-1106-11	93.775, 93.777, 93.778	Health and Human Services	Procedures to ensure provider eligibility requirements are met need improvement	None	Corrective action plan not completed in FY11	11-1106-12

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Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY11 Status (Refer to auditee's complete corrective action plan)**	**FY11 Finding**
10-1106-12	93.775, 93.777, 93.778	Health and Human Services	Procedures to ensure checks that remain uncashed beyond 180 days from issuance are credited to the Federal government on a timely basis need improvement	$55,512	Corrective action plan not completed in FY11	11-1106-03
10-1106-13	93.775, 93.777, 93.778	Administrative and Financial Services	Procedures for crediting the Federal share of overpayments need improvement	None	Corrective action taken in FY11	Finding was not repeated
10-1106-14	93.775, 93.777, 93.778	Administrative and Financial Services and Health and Human Services	Controls over prompt payment requirements need improvement	Not determinable	Corrective action plan not completed in FY11	11-1106-01
10-1106-15	93.775, 93.777, 93.778, 93.767	Administrative and Financial Services and Health and Human Services	Controls to ensure payments are made from the correct Federal program need improvement	$223,171	Corrective action plan not completed in FY11	11-1106-07
10-1106-16	93.775, 93.777, 93.778, 93.767	Health and Human Services	Incorrect client eligibility determinations	None	Corrective action plan not completed in FY11	11-1106-16

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
10-1106-17	93.775, 93.777, 93.778	Health and Human Services	Medicaid eligibility quality control procedures need improvement	None	Corrective action plan not completed in FY11	11-1106-10
10-1106-18	93.775, 93.777, 93.778	Health and Human Services	Insufficient documentation in hospital survey and certification results	None	Corrective action taken in FY11	Finding was not repeated
10-1109-02	93.658	Administrative and Financial Services	Inaccurate financial reporting	None	Corrective action taken in FY11	Finding was not repeated
10-1109-03	93.658	Administrative and Financial Services	Federal cash management procedures need improvement	None	Corrective action taken in FY11	Finding was not repeated
10-1109-06	93.658	Health and Human Services	Procedures to ensure payments are made only for allowable activities need improvement	$13,622	Corrective action plan not completed in FY11	11-1109-01
10-1110-02	93.659	Administrative and Financial Services	Procedures to ensure accurate financial reporting need improvement	None	Corrective action taken in FY11	Finding was not repeated
10-1110-04	93.659	Administrative and Financial Services	Federal cash management procedures need improvement	None	Corrective action taken in FY11	Finding was not repeated
10-1110-07	93.658, 93.659	Administrative and Financial Services	Inadequate procedures to ensure costs are properly charged or allocated	$366,908	Corrective action taken in FY11	Finding was not repeated

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Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY11 Status (Refer to auditee's complete corrective action plan)**	**FY11 Finding**
10-1111-01	Various	Health and Human Services	Income and eligibility verification system procedures need improvement	None	Corrective action plan not completed in FY11	11-1111-01
10-1111-02	93.558 & 93.714	Administrative and Financial Services	Controls not adequate to ensure accurate financial reporting	None	Corrective action plan not completed in FY11	11-1111-02
10-1113-02	10.557	Health and Human Services	Noncompliance with cash management requirements	None	Corrective action taken in FY11	Finding was not repeated
10-1130-01	93.667	Health and Human Services	Procedures for providing award information to subrecipients need improvement	None	Corrective action taken in FY11	Finding was not repeated
10-1140-01	93.775, 93.777, 93.778, 93.767	Health and Human Services	School based rehabilitation services billing and payment procedures need improvement	Not determinable	Corrective action plan not completed in FY11	11-1140-01
10-1140-02	93.775, 93.777, 93.778, 93.767	Health and Human Services	Maine Claims Management System (MECMS) procedures to ensure local match (certified seed) is met need improvement	None	Corrective action plan not completed in FY11	11-1140-02

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10-1140-03	93.775, 93.777, 93.778, 93.767	Health and Human Services	Procedures needed to ensure better accountability of certified public expenditures	None	Corrective action plan not completed in FY11	11-1140-03
10-1151-01	93.069	Health and Human Services	Controls over suspension and debarment requirements need improvement	None	Corrective action taken in FY11	Finding was not repeated
10-1151-03	93.069	Administrative and Financial Services	Controls over period of availability of Federal funds need improvement	$15,255	Corrective action plan not completed in FY11	Finding was not repeated
10-1151-04	93.069	Health and Human Services	Subrecipient award identification procedures need improvement	None	Corrective action taken in FY11	Finding was not repeated
10-1151-05	93.069	Health and Human Services	Payroll costs not supported in accordance with Federal regulations	Not determinable	Corrective action plan not completed in FY11	Finding was not repeated
10-1200-01	Various	Administrative and Financial Services	Noncompliance with subrecipient cash management requirements	None	Corrective action plan not completed in FY11	11-1200-01
10-1200-02	Various	Administrative and Financial Services and Education	Subrecipient monitoring procedures need improvement	None	Corrective action plan not completed in FY11	Management Letter comment issued for FY11

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY11 Status (Refer to auditee's complete corrective action plan)	FY11 Finding
10-1200-03	84.010 & 84.027	Administrative and Financial Services	Federal cash management procedures not followed	None	Corrective action plan not completed in FY11	11-1200-03
10-1200-04	Various	Administrative and Financial Services	Federal cash management procedures inadequate	None	Corrective action plan not completed in FY11	11-1200-04
10-1201-01	84.027, 84.173, 84.391 & 84.392	Education	Inadequate during-the-award monitoring procedures	None	Corrective action plan not completed in FY11	11-1201-02
10-1203-01	10.553, 10.555, 10556 & 10.559	Education	Monitoring of subrecipient net cash resources need improvement	None	Corrective action plan not necessary due to new Federal interpretation in FY11	Finding was not repeated
10-1203-02	10.553, 10.555, 10556 & 10.559	Education	Grant information not provided to subrecipients	None	Corrective action taken in FY11	Finding was not repeated
10-1234-01	84.394	Education	Inadequate during-the-award monitoring procedures	None	Corrective action taken in FY11	Finding was not repeated
10-1302-05	17.225	Labor	Amounts reported on the ETA 191 report cannot be fully supported	Not determinable	Corrective action taken in FY11	Finding was not repeated
10-1308-01	84.126 & 84.390	Administrative and Financial Services	Cash management procedures need improvement	None	Corrective action plan not completed in FY11	11-1308-02

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10-1308-02	84.126 & 84.390	Labor	Client services payments not adequately monitored	$12,560	Corrective action taken in FY11	Finding was not repeated
10-1308-03	84.126 & 84.390	Labor	Procedures not adequate to ensure timely eligibility decisions	None	Corrective action plan not completed in FY11	11-1308-02
10-1315-01	17.258, 17.259 & 17.260	Administrative and Financial Services	Cash management procedures need improvement	None	Corrective action plan not completed in FY11	11-1315-01
10-1315-02	17.258, 17.259 & 17.260	Labor	Required award information not provided to subrecipients	None	Corrective action plan not completed in FY11	11-1315-03
10-1315-03	17.258, 17.259 & 17.260	Administrative and Financial Services and Labor	Documentation to support subrecipient monitoring activities not maintained	None	Corrective action plan not completed in FY11	11-1315-02
10-1500-01	97.036	Defense, Veterans and Emergency Management	Excess cash balance	$800,000	Corrective action plan completed in FY11	Finding was not repeated
10-1503-01	12.401	Defense, Veterans and Emergency Management	Inadequate controls over support for salaries and wages	None	Corrective action taken in FY11	Finding was not repeated

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Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY11 Status (Refer to auditee's complete corrective action plan)**	**FY11 Finding**
10-1503-02	12.401	Defense, Veterans and Emergency Management	Procedures to ensure compliance with Buy American Act provisions need improvement	Not determinable	Corrective action plan not completed in FY11. Finding no longer applies.	Finding was not repeated
10-1503-03	12.401	Defense, Veterans and Emergency Management	Controls over Federal cash management requirements need improvement	None	Corrective action taken in FY11	Finding was not repeated

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